Sherritt International Corporation — Annual Report 2002

Sherritt International Corporation, with assets of over $2 billion, is a diversified Canadian natural resource company that operates in Canada, Cuba and internationally. Sherritt, directly and through its subsidiaries, has significant interests in thermal coal production; a vertically-integrated nickel/cobalt metals business; oil and gas exploration, development and production; and electricity generation. Sherritt also has interests in cellular telecommunications, soybean-based food processing, tourism and agriculture.

Sherritt's 104 million restricted voting shares and $600 million of 6% convertible debentures trade on The Toronto Stock Exchange under the symbols S and S.DB, respectively. Sherritt's $105 million 9.875% senior unsecured notes trade on the over-the-counter bond market.

2002 HIGHLIGHTS

- > **Revenues increased 27% to $806 million**
- > **Cash provided by operating activities increased 53% to $234 million ($2.39 per share)**
- > **Net earnings per share increased 12% to $0.38 per share**
- > **Operating earnings increased 70% to $133 million**
- > **Assets totalled $2.0 billion at the end of the year**

PICTURED ON THE FRONT COVER IS THE FORT SASKATCHEWAN REFINERY COMPLEX, WHICH FORMS PART OF SHERRITT'S METALS BUSINESS UNIT. THE REFINERY SET PRODUCTION RECORDS FOR BOTH NICKEL AND COBALT IN 2002.

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LETTER FROM THE CHAIRMAN

Your company had a good year in 2002, generating solid earnings and ending the year with over $200 million in cash on hand while reducing debt. Our business units established many new production and earnings records. Our Oil and Gas and Metals units, two major businesses in Cuba, both had outstanding performance. We began major initiatives in 2002 in our coal and power businesses that concluded successfully in early 2003.

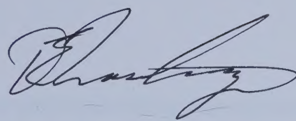
The largest of these initiatives was the acquisition of the prairie operations of Fording Inc. and the divestiture of all of our metallurgical coal operations to the Fording Canadian Coal Trust in which your company acquired a 9.5% portfolio interest. These transactions were carried out by Sherritt Coal Partnership II, a partnership with the Ontario Teachers' Pension Plan, also our partners in the Luscar Energy Partnership. This successful acquisition makes your company the largest coal operator in Canada, with a distinct focus on providing coal for power generation and industrial heating.

The second initiative, begun during the year and completed in the first quarter of 2003, was the acquisition of the outside interest in Sherritt Power Corporation, our Cuban electric utility business. With this acquisition, your company will now have a one-third interest in 226 megawatts of gas-fired electricity generating capacity that will produce about 10% of Cuba's electricity.

The acquisition of Luscar and the Fording and Sherritt Power transactions have all been accomplished since 2001, substantially increasing your company's cash flow and consistency of earnings. Any one of these transactions could be considered a major initiative. At the same time, we continue to invest and build our businesses in Cuba and elsewhere, setting production records along the way and finding new and better ways to accomplish our goals. All of these achievements take the talent and perseverance of a wide range of people.

I would like to thank all the people who have contributed to another good year – our understanding partners in Canada and abroad, our professional advisors, our management, our Board of Directors and particularly, our dedicated employees.

IAN W. DELANEY, CHAIRMAN, MARCH 2003



LETTER FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Sherritt International has achieved and will continue to achieve success by running its diverse businesses efficiently, seeking expansion opportunities within those businesses or as new investments and by pursuing initiatives to enhance shareholder value. Our business focus is on key parts of the economy, often on basic industries.

A key component to achieving our success is the ingenuity and innovation brought forward by the employees of your company. This innovation expresses itself in the many tasks one must do to achieve record output levels or to reach milestones such as one million hours worked without a lost-time injury as we have at our Fort Saskatchewan refinery operations and at the Sheerness mine. Innovation also expresses itself in the broad strokes that have led to the restructuring of the Canadian coal industry or the doubling of gross production of oil in Cuba in four years. Throughout this annual report, we will bring you a few of those stories of innovation that help to make your company a better investment.

Sherritt generated consolidated net earnings of $60 million in 2002 compared with $52 million in 2001. Outstanding operating earnings from Oil and Gas along with much improved operating earnings from Metals contributed to higher net earnings. Both business units achieved record product sales volumes and higher realized commodity prices. Write-downs of the value of Sherritt's investment in Anaconda Nickel Limited reduced 2002 and 2001 net earnings by $30 million and $19 million respectively. Cash provided from operating activities was $234 million, up 53% from $153 million in 2001. Capital expenditures for 2002 totalled $132 million and were largely focused on Oil and Gas, $91 million; Coal, $26 million; and Metals, $14 million. Year-end cash on hand rose to $211 million from $148 million.

The character of the Coal business unit has changed with Sherritt's purchase of Fording Inc.'s Canadian thermal coal operations and undeveloped coal resources. Your company has become a key supplier of coal to North American energy markets, with a vast base of coal resources to supply growing energy needs in a cost-efficient

and environmentally responsible manner. Sherritt's coal business will now be focused on markets where coal is used to generate electricity or to provide heat for industrial processes. This will provide greater earnings stability. The critical importance of coal in the world's electricity production (providing fuel for approximately 40% of electricity generation), its cost competitiveness and wide availability continue to provide the driving force for technologies to enhance the use of coal in an energy-hungry world.

The Fording transactions also resulted in the transfer of Luscar's metallurgical coal operations to the Fording Coal Partnership in exchange for units of the Fording Canadian Coal Trust as well as Sherritt's purchase of $100 million of such units. The Fording Trust will have an investment in all of Canada's major metallurgical coal mines and will be focused on producing and selling coal for steel making, primarily in export markets. The combined metallurgical coal operations are expected to be more efficient and will be the world's second largest supplier of high-quality metallurgical coal to export markets, making Canada a more competitive player in international coal markets.

Coal contributed $18 million to Sherritt's operating earnings in its first full year under the Luscar Energy Partnership. The Poplar River mine successfully completed a major tub rebuild (a repair done only once in the life of the machine) on one of its two draglines. The $12 million project was completed on time and under budget. The Sheerness mine, which began production in 1995, celebrated its seventh year without a lost-time accident. Operating margins for Luscar's export-oriented mines slipped significantly in 2002 due to reduced export thermal coal prices, lower output from the Luscar mine, which is nearing the end of its reserve life, and the need to remove additional overburden at the Line Creek mine.

Our metals refinery in Fort Saskatchewan, Alberta once again established production records for nickel and cobalt in 2002 and mine operations at Moa, Cuba established another annual record for mixed sulphides production, the basic feed for the Canadian refinery. These achievements have come about through a process of continuous improvement of operations. Fort Saskatchewan's record output was also set in a year in which

refinery employees achieved 1,000,000 hours without a lost-time injury, adding great pride and satisfaction to the production accomplishments. Metals contribution to Sherritt's operating earnings rose to $39 million in 2002 from $4 million in 2001 as average nickel prices increased and lower production costs were achieved.

Metals is at a stage where we are examining the opportunity to expand output. International nickel markets are firm with steady growth in demand and limited prospects for new supply. The Moa region of Cuba hosts some of the world's foremost lateritic nickel deposits and the Moa operation has ample reserves to expand significantly. Metals has distinct competitive advantages through its existing operations and infrastructure, which will provide cost and timing benefits for any increase in output.

Oil and Gas operations had a truly banner year, contributing $99 million in operating earnings, up 34% over 2001. Net oil production was 22,000 barrels per day, the sixth consecutive record annual output. Realized oil prices, up almost 25%, and drilling successes both contributed to the positive results. We invested $91 million in the Oil and Gas unit in 2002 reflecting good development economics, exploration opportunities and solid cash flow from the unit. In addition to drilling, we invested in several Cuban infrastructure projects designed to enhance production including $18 million on new production facilities at Yumuri and at Canasi, which are both expected to be completed in 2003.

We will continue to explore and develop our existing holdings in Cuba. We have also signed production-sharing contracts for four offshore exploration blocks in the deepwater zone in the Gulf of Mexico northwest of Havana. These blocks cover approximately two million acres and represent an opportunity to explore new geological horizons that have the potential to contain significant hydrocarbon deposits, albeit with a higher degree of exploration risk. Oil and Gas continues to look for other areas in the world where it can apply its highly refined exploration and drilling expertise.

In our Other Businesses segment, Sherritt Power completed its 75 megawatt combined cycle expansion at Varadero, Cuba in early 2003. The facilities initiated by Sherritt Power are now in place and can be expected to produce up to 10% of Cuba's electricity needs, at a low cost. There may also be opportunities to build additional power-generating capacity in Cuba, which will enhance the efficiency of existing operations. Sherritt International acquired the outstanding securities of Sherritt Power in March 2003. Power, as a full business unit of Sherritt, will contribute significantly to Sherritt's cash flow and will have greater flexibility in meeting its capital needs. Sherritt intends to use its expertise in power generation to examine opportunities to develop cost-effective, environmentally responsible electricity production ranging from gas-fired generation in Cuba to coal-fired generation in Canada.

PDS, our soybean-based food-processing joint venture in Cuba, continues to seek ways to expand the market for its products while maintaining stable production. Our hotel investments provided largely breakeven results, as Cuban tourism has not recovered from the worldwide downturn in tourist traffic, which began in 2001. Cubacel, our Cuban cellphone business, is in the process of installing new equipment and technology, which will allow it to accommodate a greatly expanded customer base. Cubacel generated $3 million in operating earnings for Sherritt last year and its billing minutes grew by 13%.

The diversity of your company's operations has proven its merits at a time when many other industrial companies are suffering from economic uncertainty. Solid earnings, strong cash flow and a strong balance sheet are rare these days. Our investments in industries important to the economies we operate in are complemented by the skill and dedication of your employees. I thank them for their effective efforts in 2002 and I look forward to the improvements we can bring for our shareholders in 2003.

DENNIS G. MASCHMEYER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MARCH 2003

Management's Discussion and Analysis

The purpose of this Management's Discussion and Analysis is to provide readers the ability to look at Sherritt International in much the same way as management. We provide a combination of historic and prospective information and financial and business analyses that, together with the financial statements, are intended to impart useful knowledge to investors and other readers.

References to "Sherritt", or "the Corporation" refer to Sherritt International Corporation and its share of consolidated subsidiaries and joint ventures unless the context indicates otherwise. All dollar references are in Canadian dollars unless otherwise specifically indicated. References to "U.S.$" are to United States dollars.

This Management's Discussion and Analysis may contain certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include phrases such as "believe", "expect", "anticipate", "intend", "plan", "likely", "will" or other similar words or phrases. Similarly, statements contained in the "Review of Operations" and "Outlook" sections of this Management's Discussion and Analysis including those with respect to our expectations concerning assets, prices, earnings, production, market conditions, capital expenditures, commodity demand, and our objectives, plans or goals are or may be forward-looking statements. These forward-looking statements are not based on historical facts, but rather on current expectations and projections about future events. These forward-looking statements are subject to risks and uncertainties. These risks and uncertainties could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. They may include (i) the risks and uncertainties set forth in this Management's Discussion and Analysis, especially under the heading "Risk Management", and in our Annual Information Form, which is filed with Canadian securities regulators, (ii) changes in market conditions, including with respect to price and demand, (iii) changes in our current cost or productivity estimates and (iv) changes in the capital projects or other endeavors we may pursue.

This Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements and related notes of Sherritt for the year ended December 31, 2002.

To assist the reader in understanding Sherritt's operations and results, information is presented in the following six sections:

OVERVIEW

Sherritt International Corporation, with assets of over $2 billion, is a diversified Canadian natural resource company that operates in Canada, Cuba and internationally. Sherritt, directly and through its subsidiaries, has interests in thermal coal, metals, oil and gas, power generation, telecommunications, soybean-based food processing, tourism and agriculture.

COAL

The Coal business is comprised of a 50% indirect interest in Luscar Energy Partnership ("Luscar Energy") and its subsidiaries, Luscar Coal Ltd. ("Luscar Coal") and Luscar Ltd. (collectively "Luscar"). Luscar, an established, cost-efficient coal producer, sells coal used to generate electricity and to supply industrial process heat, mainly in Canadian markets. In February 2003, Luscar acquired 6.3% of Fording Canadian Coal Trust, which controls the world's second largest producer of high-quality, export metallurgical coal (used for steel making). Sherritt also acquired a 50% indirect interest in the thermal coal assets and other mineral interests that formed Fording's prairie operations, plus an additional 6.3% interest in the Fording Canadian Coal Trust.

METALS

Sherritt's Metals business consists of a 50% indirect interest in the Metals Enterprise, a vertically-integrated nickel and cobalt mining, processing, refining and marketing joint venture with operations in Moa, Cuba and Fort Saskatchewan, Alberta. Sherritt also owns 100% of a fertilizer and utilities operation located in Fort Saskatchewan, which provides inputs for the metal refinery and produces agricultural fertilizer for sale in western Canada.

OIL AND GAS

The Oil and Gas business produces oil from fields in Cuba and Spain. Approximately 96% of Sherritt's oil revenue is from fields in Cuba, where Sherritt is the largest foreign producer. The Corporation also has various interests in exploration including Cuba, Spain and Pakistan.

OTHER BUSINESSES

POWER GENERATION Sherritt's interest in Sherritt Power Corporation ("Sherritt Power") at December 31, 2002 was a 49.7% interest in the common shares and $60.2 million principal amount of the 12.125% unsecured amortizing notes. Sherritt Power has financed, constructed and is operating 226 megawatts of gas-fired electricity generating plants in Cuba. Sherritt acquired all of the outstanding common shares of Sherritt Power and assumed all of its outstanding debt in March 2003.

TELECOMMUNICATIONS, an indirect 40% interest in Teléfonos Celulares de Cuba S.A. ("Cubacel"), which provides cellular services in Cuba.

SOYBEAN-BASED FOOD PROCESSING, a 49% indirect interest in Procesadora de Soya, S.A. ("PDS"), a joint venture which operates a soybean-based food processing facility in Santiago de Cuba.

TOURISM, a 25% indirect interest in the concession for the Las Americas luxury beachfront hotel and bungalow complex in Varadero, Cuba and a 12.5% indirect interest in the Hotel Habana, a business-oriented hotel in Havana, Cuba.

AGRICULTURE, a 50% indirect interest in a 200-hectare farm in Matanzas, Cuba, operating under the trade name Sherritt Green.

Additional information on the business segments in which Sherritt operates is provided in note 21 to the 2002 consolidated financial statements.

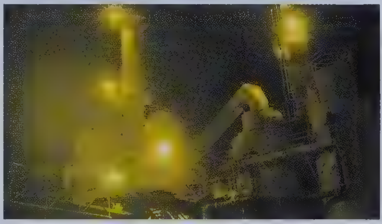
BUSINESS FOCUS

Sherritt pursues the optimization of each of its Coal, Metals, Oil and Gas and Other Businesses by concentrating on cost efficiency, enhancing production and maximization of cash flows. In addition, Sherritt is committed to capitalizing on growth opportunities in each of its principal businesses as well as investing in new business opportunities internationally.

sherritt

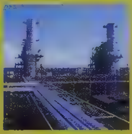
Coal is focused on the efficient production of coal used for electricity generation and industrial process heat. With ten mine operations and extensive reserves and resources of thermal coal in western Canada, Coal seeks to provide customers with a reliable supply of low-cost energy. New markets will be sought particularly as a replacement energy source where natural gas is widely used.

Metals is a preeminent developer and operator of pressure hydrometallurgical technologies for the extraction of metals from lateritic ores. The Moa mine operations provide an extensive reserve base of nickel and cobalt metals. Metals will continue to focus on achieving efficiencies in its production operations while examining expansion alternatives afforded to it by market conditions and access to a large resource base.



Oil and Gas has developed specialized skills in the analysis of fold and thrust belt geologic environments and in horizontal drilling technologies, which allow it to reach Cuban offshore oil deposits from land-based drilling locations. Oil and Gas will continue to use these strengths to increase its Cuban oil production and to seek new oil production areas internationally. In addition, Oil and Gas intends to begin the assessment of its Cuban offshore blocks.

Sherritt Power is focused on bringing its Varadero facility up to full production and providing the infrastructure required to maintain and enhance the availability of its plants. As well, Sherritt Power will assess expansion opportunities in Cuba and power generation projects elsewhere.

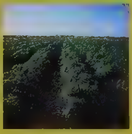


Cubacel is increasing its capacity to provide services in Cuba and will seek to expand its customer base.

PDS will continue to improve its production facilities and processes to provide quality soybean-based food products to the Cuban market, as well as develop markets for its value-added products internationally.

Sherritt will seek to manage its hotel investments to enhance their cash generation potential.

Sherritt Green will continue to provide quality vegetable and fruit products to the Cuban market and internationally.



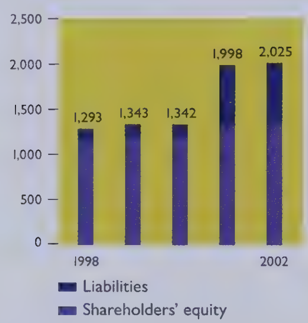
FINANCIAL REVIEW

This section analyzes significant changes in Sherritt's financial statements (the consolidated balance sheets, statements of operations, statements of retained earnings, and statements of cash flow and related notes) and should be read in conjunction with those consolidated financial statements and notes thereto for the year ended December 31, 2002.

Key Financial Indicators

Sherritt uses key financial indicators to help assess its business performance and to aid in the management of its business units.

Capitalization
(millions of dollars)

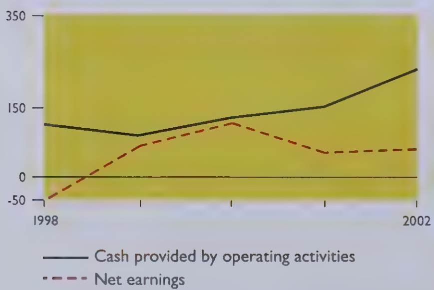


Key Financial Indicators

(thousands of dollars, except per share amounts)	2002	2001
Revenue	$ 806,398	$ 636,618
Operating earnings	133,262	78,455
Net earnings	60,449	51,595
Earnings per share		
Basic	0.38	0.34
Diluted	0.36	0.33
Cash provided by operating activities	233,517	152,537
Net cash from operations (1)	101,470	38,970
Total assets	2,025,488	1,998,414
Shareholders' equity	1,354,284	1,316,858

(1) Defined as cash provided by operating activities less capital expenditures.

Net earnings and cash provided by operating activities
(millions of dollars)



Consolidated Operating Results

Sherritt's consolidated net earnings for 2002 were $60.4 million or $0.38 per share compared with $51.6 million or $0.34 per share in 2001. Results for the year included a $37.0 million ($29.8 million after tax) write-down of Sherritt's investment in Anaconda Nickel Limited ("Anaconda"). Results for 2001 included a $23.4 million ($18.8 million after tax) write-down of the Anaconda investment. Excluding the impact of these adjustments, consolidated net earnings were $90.2 million or $0.69 per share in 2002 compared with $70.4 million or $0.55 per share in 2001. The increase in earnings largely reflected higher operating earnings by the Oil and Gas and Metals businesses, partly offset by higher interest costs and taxes.

Operating Earnings

(thousands of dollars)	2002	2001
Revenue	$ 806,398	$ 636,618
Operating, selling, general and administrative	518,896	431,933
Earnings before undernoted items	287,502	204,685
Depletion and amortization	144,523	118,768
Site restoration and abandonment	9,717	7,462
Operating earnings	$ 133,262	$ 78,455

Operating earnings is a measure used by Sherritt to evaluate operating performance of its operating businesses as it eliminates interest charges, which are a function of the particular financing structure, and certain other charges. Information on operating earnings by business segment is provided in the Review of Operations.

Consolidated revenue reached a record $806.4 million in 2002, $169.8 million or 27% higher than the $636.6 million achieved in 2001. Significant increases in revenue were achieved by each of Sherritt's business segments. Over half of the revenue increase resulted from the full year inclusion of results from the Coal business, compared with 7½ months in 2001. The remaining increase was primarily due to higher realized oil and nickel prices, higher oil and metals sales volumes and the full year inclusion of revenue from the soybean-based food-processing operation.

Operating, selling, general and administrative costs of $518.9 million were $87.0 million or 20% higher than in 2001, primarily due to the full year inclusion of costs from the Coal business and the soybean-based food processing operation.

Depletion and amortization expense was $144.5 million in 2002 compared with $118.8 million in 2001. Approximately $15.8 million of the increase arose from the full year inclusion of the Coal business. The remaining increase primarily comprised higher depletion and amortization in the Oil and Gas business, reflecting higher production and depletion rates.

Net Financing Income (Expense)

(thousands of dollars)	2002	2001
Interest income	**$ 13,883**	$ 15,622
Interest expense	**(27,610)**	(16,781)
Foreign exchange gains	**4,884**	5,364
Other income	**318**	232
Net financing income (expense)	**$ (8,525)**	$ 4,437

Interest income primarily consisted of interest on cash and short-term investments and Sherritt Power 12.125% notes. The reduction in interest income in 2002 primarily reflects lower interest earned on invested cash. Sherritt's cash and short-term investments earned a weighted average interest rate of 2.5% in 2002 compared with 4.4% in 2001. Interest expense was largely interest on debt of the Coal business and on the Corporation's working capital facilities. The increase in interest expense resulted from the full year inclusion of Luscar Coal's U.S.$275 million 9.75% senior notes, issued in October 2001.

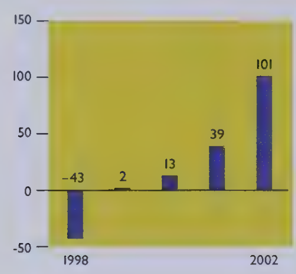
Sherritt's effective tax rate was 29% in 2002 compared with 8% in 2001. The effective tax rate, excluding the impact of write-downs in both years, was 26% in 2002 and 12% in 2001. The increase in the effective rate excluding write-downs was primarily due to a higher than anticipated provision for Cuban income taxes in the Oil and Gas business, including an additional amount related to prior years. During 2002, the Cuban tax authorities assessed Sherritt for income taxes based on the profitability of each production sharing arrangement, as opposed to the profitability of the Oil and Gas business as a whole. The assessment resulted in a payment of $25.0 million for Cuban income taxes owing up to December 31, 2001. The Corporation believes adequate provision has been made for taxes for 2002 although elements of the methodology for calculating Cuban taxes payable by the Oil and Gas business, in particular the procedure for claiming profit reinvestment tax credits as allowed under Cuban law, are still under negotiation with the Cuban tax authorities.

Sherritt's effective tax rate on a consolidated basis varies depending upon the relative profitability of each of its businesses, each of which is taxed at different rates. For 2003, management currently expects Sherritt's effective tax rate to be between 20% and 25%.

Consolidated Cash Flow

Cash and cash equivalents at December 31, 2002 totalled $193.0 million, an increase of $68.9 million over the $124.1 million reported at the end of 2001.

Net cash from operations
(millions of dollars)



Net cash from operations, defined as cash from operating activities less capital expenditures, is a measure used by Sherritt to evaluate operating performance of the Corporation and its operating businesses. Consolidated net cash from operations for the year was $101.5 million compared with $39.0 million in 2001. The Metals and Oil and Gas businesses contributed to the majority of the increase over the prior year reflecting higher earnings by these operations.

Cash from operating activities before working capital changes was $235.1 million in 2002 compared with $195.1 million in 2001. Working capital and other items remained relatively flat during the year as higher Coal and Metals inventory was partly offset by lower receivables and higher accounts payable, primarily due to the timing of collections and payments, together with a $21.0 million reduction in the net future tax liability. Capital expenditures of $132.0 million were $18.5 million higher than the prior year, primarily due to higher expenditures incurred by the Coal and Oil and Gas businesses, partly offset by lower expenditures by the Metals business.

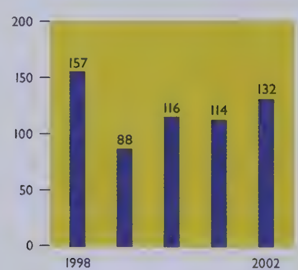
Other investing activities, excluding capital expenditures, resulted in a net cash inflow of $10.9 million and was comprised of proceeds from the sale of a corporate asset, reductions in loans and advances receivable and a reduction in restricted cash, all partly offset by deferred acquisition costs related to the Fording transactions, which were in progress at year end. The costs associated with the Fording transactions were largely reimbursed subsequent to year end as a result of the final multi-party agreement that was reached forming the Fording Canadian Coal Trust and related entities.

Cash used for financing activities of $43.4 million consisted of convertible debenture interest payments of $36.0 million and reductions in debt.

Consolidated Financial Position

Total assets at December 31, 2002 were $2.0 billion.

Capital expenditures
(millions of dollars)



Current assets, primarily consisting of cash and short-term investments, accounts receivable and inventory, totalled $640.8 million at the end of 2002 compared with $570.6 million at the end of 2001. The $70.2 million increase was mainly due to the higher cash balance at the end of the year.

Investments were $99.5 million at December 31, 2002 versus $143.4 million at the end of 2001. The decrease reflected the sale of shares and write-down of Anaconda.

Long-term future tax assets at December 31, 2002 of $38.2 million primarily represented the tax benefit of approximately $114 million of non-capital losses, $4.1 million of capital losses and tax adjustments related to the write-down of Anaconda. The benefit of these losses has been recognized in the financial statements on the expectation that sufficient taxable income will be realized in the future to utilize these losses. The non-capital tax losses have been generated primarily due to interest on Sherritt's convertible debentures.

Other assets totalled $122.7 million at December 31, 2002 compared with $117.6 million at December 31, 2001. The increase was primarily a result of deferred acquisition costs related to the Fording transactions in process at year end.

Accounts payable and accrued liabilities were $130.9 million at the end of 2002 compared with $103.1 million at the end of 2001. The increase resulted primarily from the timing of operating and capital expenditures.

Consolidated long-term debt of $255.3 million at the end of 2002 was $5.6 million lower than at the end of the prior year, mainly as a result of a lower net liability on Luscar's promissory notes. The current portion of this long-term debt increased to $12.5 million reflecting the maturity of one of these promissory notes on May 18, 2003.

A long-term future tax liability of $190.9 million existed at December 31, 2002 compared with $217.8 million at the end of 2001. This future income tax liability does not represent an actual cash tax liability but is a result of temporary differences between the value of assets and liabilities for tax purposes versus for accounting purposes. These temporary differences are expected to reverse over time, with a corresponding credit to the statement of operations. The majority of this amount relates to the Coal business.

Shareholders' Equity

Shareholders' equity increased by $37.4 million to $1.4 billion at the end of 2002. The following table provides the components of changes in shareholders' equity during the year.

Shareholders' Equity

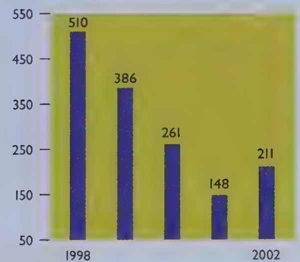
(thousands of dollars)

Shareholders' equity at January 1, 2002	$ 1,316,858
Issue of restricted voting shares	241
Net earnings	60,449
Convertible debenture interest (net of tax benefit)	(23,264)
Shareholders' equity at December 31, 2002	$ 1,354,284

Liquidity and Capital Resources

Short-term debt at the end of 2002 was comprised of Sherritt's revolving term credit facility and the operating lines of credit of certain joint ventures. Sherritt maintains a 364-day revolving term facility of $75 million provided by Canadian banks, secured by Sherritt's accounts receivable and inventory and those of certain of Sherritt's joint ventures. This facility is used by Sherritt to fund working capital requirements. Approximately $25.5 million of this facility was drawn at December 31, 2002. In addition, certain of the Corporation's joint ventures had outstanding amounts under various credit facilities, of which Sherritt's share was approximately $6.6 million.

Cash and short-term investments (1)
(millions of dollars)



(1) Including restricted cash.

Long-term debt at the end of 2002 primarily consisted of Sherritt's share of Luscar's U.S.$275 million 9.75% senior notes issued in 2001 and promissory notes. The terms of the senior notes include restrictions on amounts that Luscar Energy can distribute to its partners. The promissory notes are stated net of sinking funds and are funded by a Crown Corporation in conjunction with long-term coal supply agreements. The coal supply agreements require the Crown Corporation to reimburse Luscar upon maturity of the promissory notes for any net repayment required above the sinking fund proceeds. Luscar will repay one of the promissory notes on its maturity on May 18, 2003 and expects to receive a corresponding funding payment of approximately $20.0 million from the Crown Corporation, which will increase operating earnings in the second quarter. Sherritt's share of this payment will be approximately $10.0 million.

Luscar also has a $100 million 364-day revolving bank credit facility from three Canadian banks, secured by accounts receivable, coal inventory and a $25.0 million charge on a dragline. Approximately $62.5 million of this facility was utilized at December 31, 2002 to support letters of credit issued in order to satisfy statutory reclamation obligations. Luscar Energy, Luscar Coal Income Fund and Luscar Ltd. have guaranteed the principal and interest obligations on the 9.75% senior notes and the bank credit facility.

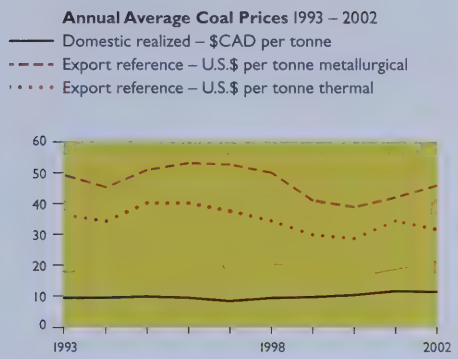
Sherritt's share of outstanding letters of credit drawn by the Corporation and its affiliates against bank facilities at the end of 2002 was approximately $52.7 million. Sherritt invested excess funds in short-term liquid Canadian marketable securities in order to maintain sufficient flexibility to make long-term strategic investments. Cash generated from operations and cash and short-term investments on hand are expected to be sufficient to finance ongoing operations.

The agreements establishing the various joint ventures in which the Corporation has interests require the unanimous consent of joint venture shareholders to pay dividends. The Corporation does not believe that these restrictions will have a material impact on the cash available to meet its obligations. Sherritt received dividends of $29.4 million during the year from its joint ventures and investments.

Sherritt has an agreement with a third party, which provides the Corporation with the right, at any time prior to April 30, 2003, to sell special warrants to the third party for cash by way of private placement, subject to regulatory approval. Each special warrant would be exercisable by the holder to acquire one Sherritt restricted voting share for no additional consideration. The maximum number of special warrants issuable under the agreement is the lesser of $30.0 million divided by the purchase price (which will be based on the market price of Sherritt's restricted voting shares at the time Sherritt exercises its right) and 5% of the aggregate number of restricted voting shares that would be outstanding after giving effect to the exercise of the special warrants. Upon exercise of its right, Sherritt is obliged to, among other things, file a prospectus qualifying the issuance of restricted voting shares upon exercise of the special warrants. The special warrants would be automatically exercised upon receipt of regulatory approval of the prospectus.

REVIEW OF OPERATIONS

COAL



PAINTEARTH MINE BOTTOM-DUMP COAL HAULERS MAKING DELIVERIES TO BATTLE RIVER GENERATING STATION.

HIGHLIGHTS

> Sherritt and Ontario Teachers' Pension Plan expand and redirect coal holdings in February 2003 transactions

- Sherritt acquired for $113 million, plus its share of working capital, a 50% interest in the thermal coal assets and other mineral interests that formed Fording's prairie operations
- Sherritt acquired 6.3% of units of Fording Canadian Coal Trust for $107 million
- Luscar exchanged its direct interest in its metallurgical coal assets for 6.3% of the units of Fording Canadian Coal Trust

> Coal sales totalled 18 million tonnes in 2002

> Sheerness mine completed its seventh year without a lost-time injury

Coal

Sherritt Coal Partnership II ("SCPII"), a partnership owned equally by subsidiaries of Sherritt and Ontario Teachers' Pension Plan, initiated a cash takeover bid to purchase all of the outstanding shares of Fording Inc. ("Fording") in October 2002. Fording responded to the initial offer by announcing its intention to convert into an income trust under a plan of arrangement. Shortly thereafter, Teck Cominco Limited ("Teck") and Westshore Terminals Income Fund ("Westshore") reached an agreement with Fording to participate in its income trust. Subsequently, SCPII revised its offer to create its own trust structure comprising Fording's metallurgical coal and industrial mineral assets and certain metallurgical coal assets and port facilities jointly owned by Luscar and CONSOL Energy Inc. ("CONSOL") and offering Fording shareholders a combination of cash and units in this newly created trust.

SCPII, Fording, Teck and Westshore reached an agreement on January 13, 2003 to combine certain metallurgical coal assets and port facilities jointly owned by Luscar and CONSOL with the metallurgical coal assets of Fording and Teck. SCPII withdrew its competing offer for Fording as part of the agreement. The metallurgical assets were to be transferred under the agreement to the Fording Coal Partnership, 65% owned by the newly created Fording Canadian Coal Trust ("Fording Trust") and 35% owned by Teck. Fording shareholders were offered a combination of cash and units in the Fording Trust. Fording shareholders approved the plan of arrangement on February 19, 2003 and various transactions transferring assets and establishing the initial investors in the Fording Trust closed on February 28, 2003.

SCPII, as part of the Fording transactions, acquired the thermal coal assets and other mineral interests that formed Fording's prairie operations for $225 million plus cost of acquired working capital. Sherritt's coal business will now be focused on markets where coal is used to generate electricity or to provide heat for industrial processes. This is expected to provide greater earnings stability and more opportunities for growth supplying competitively priced energy to North American markets. Luscar will manage these assets.

THE NEWLY ACQUIRED GENESEE MINE IS A TYPICAL MINE-MOUTH PRAIRIE POWER PLANT SUPPLY OPERATION.

The assets acquired include interests in the 3.5 million tonne capacity Genesee mine, which is the exclusive supplier to the adjacent EPCOR Genesee generating station, and the 15 million tonne per year mining contract for TransAlta Corporation's Highvale and Whitewood mines, which also serve nearby generating plants. The Genesee power plant is adding 450 megawatts of capacity, which is expected to be on stream in 2005, requiring higher coal deliveries. TransAlta has also announced its intention to expand its Keephills unit, which would require more coal from Highvale mine, likely in the latter half of the decade. The extensive reserve and resource base acquired provides a significant stream of royalty income from coal and other minerals as well as potential future coal mine locations. These prairie operations generated operating earnings before depreciation of $44 million as reported by Fording in 2002, excluding earnings from the Highvale mine.

Luscar, in exchange for contributing its metallurgical coal assets to Fording, received 3.0 million units of Fording Trust, representing an approximate 6.3% ownership interest. In addition, Sherritt purchased an additional 6.3% of Fording's trust units. The Fording Trust will benefit from the operational and marketing synergy expected to result from the consolidation of all the major metallurgical coal operations in Canada. The Trust is expected to pay quarterly cash distributions to unitholders, the amount of which will depend on the profitability of its metallurgical coal and other businesses, except that for 2003 such distributions will also include special distributions of $1.48 per unit.

The Coal business changed its methodology of analyzing revenue and operating results at the end of 2002. Previously, revenue and operating results were split between its export and domestic businesses. The transfer of Luscar's metallurgical assets to Fording and the purchase by SCPII of Fording's prairie operations will result in a significant reduction in the volume of export coal with the Coal unit focusing on thermal coal. Accordingly, this review of Coal operations focuses on the results for thermal coal assets and metallurgical coal assets.

The core of Luscar's thermal coal mining operations during 2002 was the Boundary Dam, Paintearth, Poplar River and Sheerness mines, which supply coal to adjacent power plants. These mine-mouth operations are exclusive suppliers to the generating facilities they serve and under the terms of their long-term contracts, revenues they receive are escalated annually. Large, efficient draglines are used by Luscar to mine these coal deposits, which are generally flat lying, relatively shallow and undisturbed. Thermal coal was also sold from the Bienfait, Coal Valley, Obed Mountain and Line Creek mines to electricity generators and industrial customers in Canada and major electricity generators in the Pacific Rim.

Luscar's key metallurgical coal mining operations in 2002 were the Line Creek and Luscar mines. Trucks and shovels are used to extract coal from these mines given the rugged terrain in which they are located and their often complex geological conditions, with many folds and faults. Most of the metallurgical coal produced by these mines is sold to steel makers in the Pacific Rim, the Americas and Europe.

Luscar also produces value-added products related to its coal mining operations. A char plant, located at the Bienfait mine, produces char from lignite coal that is sold to charcoal briquette manufacturers. A line of humalite products (derived from weathered coal material) that potentially has a wide range of uses for agricultural, horticultural, environmental and industrial users is being developed.

Coal – Financial Highlights (thousands of dollars)	2002	May 12 to December 31 2001(1)
Revenue	**$ 298,557**	$ 204,450
Operating, selling, general and administrative	**229,597**	152,022
	68,960	52,428
Depletion and amortization	**43,190**	27,425
Provision for site restoration and abandonment	**7,276**	4,850
Operating earnings	**$ 18,494**	$ 20,153
Capital expenditures	**$ 25,518**	$ 8,303

(1) Luscar Energy was formed on February 20, 2001 and acquired Luscar Coal Income Fund and related companies on May 11, 2001.

Coal operating earnings were $18.5 million on revenues of $298.6 million for the year ended December 31, 2002 compared with operating earnings of $20.2 million on revenues of $204.5 million for the period from May 12 to December 31, 2001.

Revenue from thermal coal operations was $221.6 million compared with $149.1 million during the period May 12 to December 31, 2001. Approximately 50% of thermal coal revenue was derived from core mine-mouth operations. On an annualized basis, sales from the mine-mouth operations were comparable with the prior year. Other revenue from thermal coal operations is derived from short-term contracts for the sale of coal to industrial customers and other domestic and overseas electric utilities. Thermal coal operations also included contract mining at the Highvale mine, which

was terminated on December 31, 2002, but began again with the acquisition of the Fording prairie assets. On an annualized basis, revenue from thermal coal operations was lower than the prior year primarily due to lower sales volumes to customers other than mine-mouth utilities. In the domestic market, mild weather in eastern Canada at the beginning of the year reduced demand from Ontario Power Generation. In the export thermal coal market, oversupply during 2002 resulted in intense competition among world suppliers, significantly lowering spot prices during the second half of the year.

Revenue from metallurgical coal operations was $77.0 million compared with $55.4 million during the period May 12 to December 31, 2001. On an annualized basis, sales from metallurgical coal operations decreased due to lower production at the Luscar mine, where reserves are expected to be depleted by the end of 2003.

Coal – Volumes and Prices	2002	May 12 to December 31 2001(1)
Sales Volumes (thousands of tonnes) (2)		
Thermal	**16,777**	10,643
Metallurgical	**1,205**	866
	17,982	11,509
Realized Prices ($ per tonne)		
Thermal	**$ 13.20**	$ 14.00
Metallurgical	**63.92**	64.00

(1) Luscar Energy was formed on February 20, 2001 and acquired Luscar Coal Income Fund and related companies on May 11, 2001.
(2) Represents Sherritt's 50% share.

Luscar's operating margin (calculated after site restoration and abandonment but before selling and administrative costs and depletion and amortization) from thermal operations was $3.41 per tonne compared with $4.14 per tonne for the period May 12 to December 31, 2001. The lower average operating margin resulted from a higher proportion of shipments from the Highvale mine, where margins are lower than average, and reduced sales volumes to customers supplied by rail, where margins are generally higher than average. In the export thermal coal market, realized prices vary according to coal quality, regional supply and demand and transportation costs. During 2002, oversupply in world thermal coal markets resulted in lower margins for export shipments.

INVESTMENT IN A NEW SCRAPER FLEET AT BOUNDARY DAM MINE HAS INCREASED THE EFFECTIVENESS AND REDUCED THE COST OF RECLAMATION ACTIVITIES.

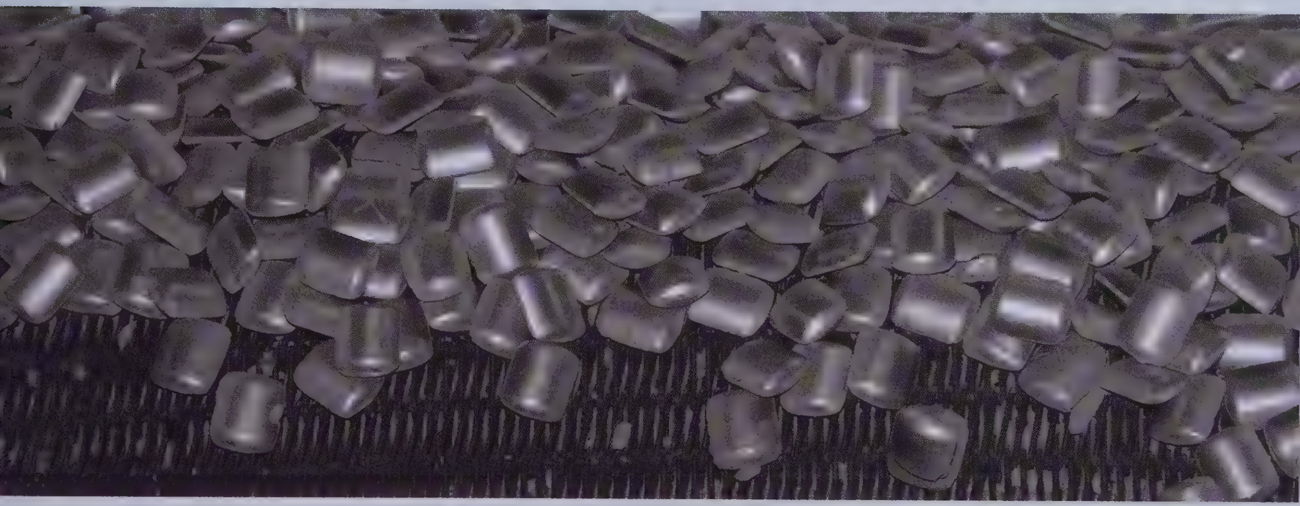
Operating margin from metallurgical operations was $5.70 per tonne compared with $7.68 per tonne for the period May 12 to December 31, 2001. The lower average operating margin was largely due to higher rail rates for all metallurgical coal and higher production costs from the remaining pits at the Luscar mine. The average realized price in 2002 was comparable with the prior year period, as fundamentals in the export metallurgical coal market remained strong. Operating, selling, general and administrative costs also included the receipt of $10.1 million from a legal settlement relating to the engineering, design, manufacture and commissioning of a coal conveyor system at the Line Creek mine, which was not included in the operating margin per tonne noted above.

Capital expenditures by the Coal unit amounted to $25.5 million compared with $8.3 million during the period May 12 to December 31, 2001. In addition to spending to maintain and upgrade mine operations, the 2002 capital program included a dragline tub replacement at Poplar River mine, replacement of reclamation equipment at Boundary Dam mine and a one-time upgrade of business systems.

METALS

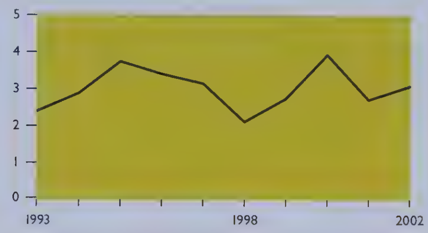
HIGHLIGHTS

- **Record finished nickel production of 31,694 tonnes**
- **Record finished cobalt production of 3,065 tonnes (the seventh consecutive annual production record)**
- **Record mixed sulphides production of 33,382 tonnes of contained nickel and cobalt (the third consecutive annual production record)**
- **Fort Saskatchewan site achieved one million exposure-hours without a lost-time injury**

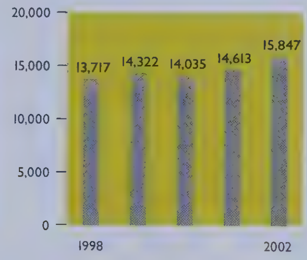


SHERRITT'S FORT SASKATCHEWAN REFINERY PRODUCES HIGH-QUALITY NICKEL BRIQUETTES.

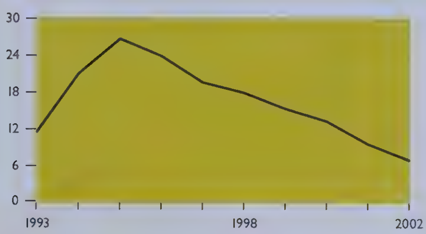
Annual Average Nickel Prices 1993 – 2002
London Metal Exchange – US$ per pound



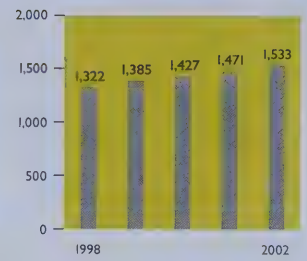
Nickel Production
tonnes



Annual Average Cobalt Prices 1993 – 2002
Metal Bulletin 99.3% – US$ per pound



Cobalt Production
tonnes



Metals

The Metals business produces mixed sulphides containing nickel and cobalt at mining and processing facilities at Moa, Cuba. These mixed sulphides are shipped to Canada and then transported by rail to the metals refinery in Fort Saskatchewan, Alberta to produce finished nickel and cobalt. The Fort Saskatchewan site also contains fertilizer and utilities operations, which provide critical inputs to the metals refinery and produce agricultural fertilizer for sale primarily in western Canadian markets.

Metals – Financial Highlights

(thousands of dollars)	**2002**	2001
Revenue	**$ 252,925**	$ 230,253
Operating, selling, general and administrative	**195,623**	207,016
	57,302	23,237
Depletion and amortization	**17,128**	18,524
Site restoration and abandonment	**1,036**	982
Operating earnings	**$ 39,138**	$ 3,731
Capital expenditures	**$ 13,718**	$ 19,772

The Metals business generated operating earnings of $39.1 million on revenue of $252.9 million in 2002, compared with operating earnings of $3.7 million on revenue of $230.3 million in 2001. The $22.7 million increase in revenue resulted from record nickel and cobalt sales volumes, higher realized nickel prices and higher fertilizer sales volumes, partly offset by lower realized cobalt prices.

Operating, selling, general and administrative costs decreased by 6% in 2002 to $195.6 million primarily reflecting reduced sulphuric acid consumption at the Moa mining and processing facilities as a result of process optimization initiatives and lower average natural gas costs at the refinery, partly offset by higher fuel costs at Moa due to higher world oil prices. Operating, selling, general and administrative costs in 2002 included a $4.2 million bad debt provision for nickel sales to a customer that is currently under compulsory liquidation in Europe. This loss represented the first material bad debt experienced by the Metals Enterprise in its eight-year history and resulted in a full review and update of credit procedures.

Capital expenditures of $13.7 million in 2002 were slightly below the expected expenditures of $15.0 million, reflecting the timing of completion of projects. The expenditures were primarily directed towards sustaining projects, with the remainder comprising environmental and refurbishment initiatives.

Metals – Volumes and Prices

	2002	2001
Sales Volumes (1)		
Nickel (thousands of pounds)	**33,836**	33,125
Cobalt (thousands of pounds)	**3,418**	3,295
Fertilizers (thousands of tonnes)	**235**	205
Production Volumes (tonnes) (1)		
Mixed sulphides containing nickel and cobalt	**16,691**	16,180
Nickel	**15,847**	14,613
Cobalt	**1,533**	1,471
Realized Prices ($ per pound)		
Nickel	**$ 4.82**	$ 4.00
Cobalt	**11.02**	15.17
Average Reference Prices (U.S.$ per pound)		
Nickel	**$ 3.07**	$ 2.70
Cobalt	**6.93**	9.56

(1) Represents Sherritt's 50% share of the Metals Enterprise and Sherritt's marketing and trading activities.

AT MOA, A NEW REJECT TREATMENT CIRCUIT WILL RESULT IN IMPROVED ORE RECOVERY AND LOWER MINING COSTS.

The Moa facility continued to achieve production gains in 2002 and established another production record of 33,382 tonnes of nickel plus cobalt contained in mixed sulphides, 1,022 tonnes higher than the previous record established in 2001. This record reflected higher ore grades, continued debottlenecking initiatives and capital investments targeted at maintaining plant reliability.

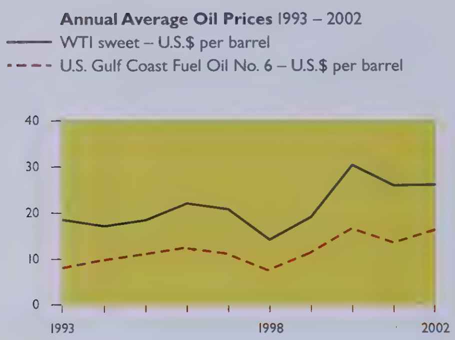
The Fort Saskatchewan refinery also established production records for both nickel and cobalt. Total finished nickel production of 31,694 tonnes exceeded the previous record established in 2001 by 8%, while total finished cobalt production of 3,065 tonnes surpassed the 2001 record by 4%, resulting in the seventh consecutive year of record cobalt production. These achievements were largely due to reduced process variability and higher metals concentration within the refining facility.

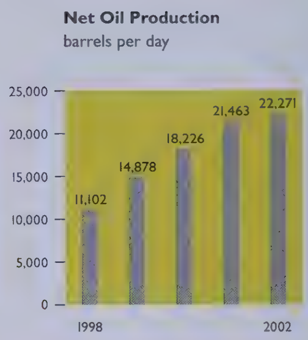
Nickel prices on the London Metal Exchange ("LME") opened the year at U.S.$2.65 per pound, climbed steadily to a high of U.S.$3.50 per pound in July, and closed the year at U.S.$3.22 per pound. The average LME nickel settlement price for 2002 was U.S.$3.07 per pound, 14% higher than the 2001 average of U.S.$2.70 per pound, due largely to improving nickel market fundamentals, such as increased stainless steel demand, low availability of stainless steel scrap and the absence of significant new global nickel production capacity. The 2002 average LME nickel settlement price was 6% higher than the five-year average.

During 2002, the Metal Bulletin 99.3% free market cobalt price traded in a range between U.S.$6.10 per pound and U.S.$8.45 per pound, averaging U.S.$6.93 per pound for the year, 28% lower than the average price for 2001. The lower cobalt price reflected weak global demand, particularly in the super alloy sector. The 2002 average 99.3% Metal Bulletin free market cobalt price was 45% lower than the five-year average.

Metals' fertilizer operations generated $2.5 million of operating earnings during the year compared with a loss of $6.4 million in 2001, reflecting higher production volumes, particularly of market-preferred ammonium super sulphate and lower natural gas costs.

OIL AND GAS





NEW FACILITIES AT YUMURI WILL ENHANCE CUBAN OIL PRODUCTION.

HIGHLIGHTS

- > Record annual average net daily oil production of 22,271 barrels of oil per day (the sixth consecutive annual net oil production record)
- > Net proved reserves in Cuba increased 19% to 24.0 million barrels
- > Production sharing agreement signed with the Cuban state oil company for exclusive exploration rights on four deepwater blocks off the north coast of Cuba

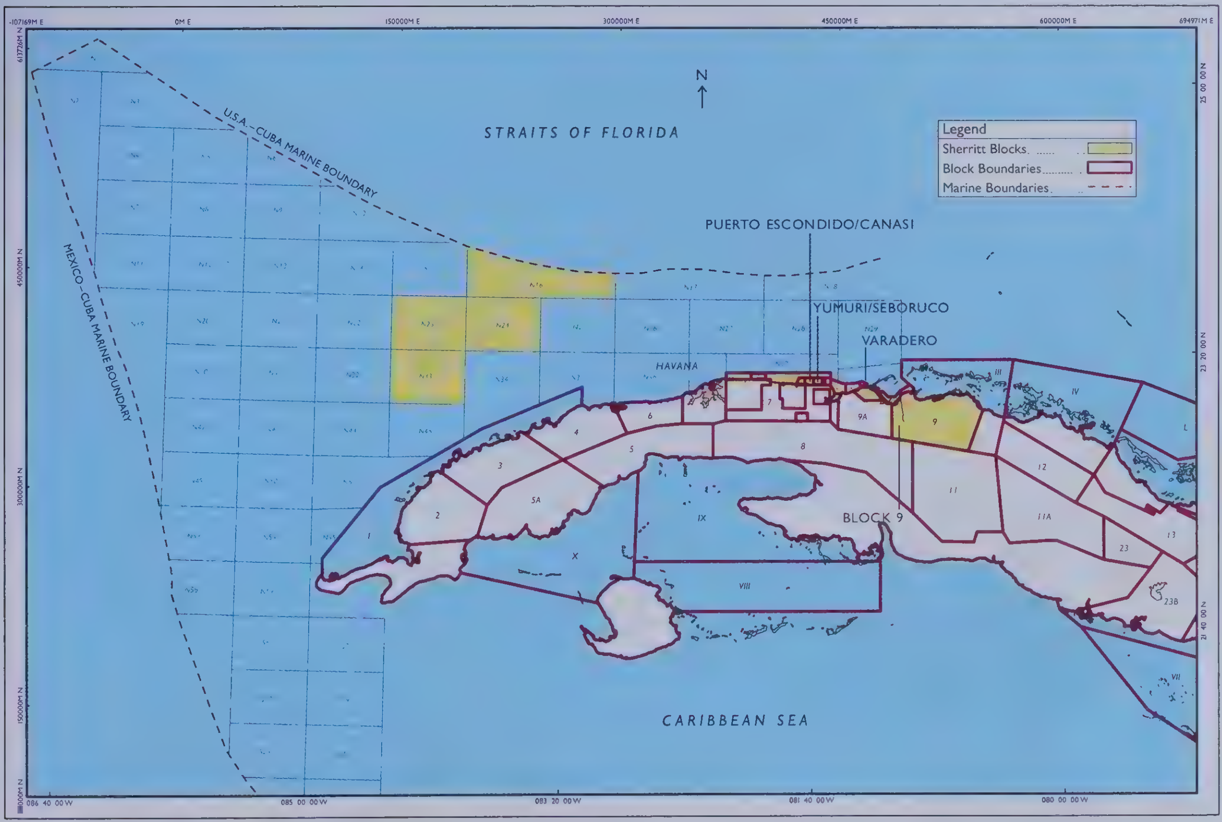
Oil and Gas

Sherritt holds indirect working interests varying from 40% to 100% in ten exploration production-sharing contracts in Cuba, which involve the exploration for and development of new oil and gas reservoirs or the extension of the field boundaries of existing reservoirs. These include exclusive exploration rights on four blocks in the deepwater economic zone off the north coast of Cuba, which were acquired in 2002. Sherritt also holds a 100% indirect interest in four enhanced production-sharing contracts with the Government of Cuba. The enhanced production-sharing contracts require Sherritt to provide services and technical assistance to rework and enhance the production of selected wells or to drill new wells in existing oil fields.

Sherritt also indirectly holds working interests varying from 15% to 29% in the Casablanca, Rodaballo, Boqueron and Barracuda oil fields, all located offshore in the Gulf of Valencia, Spain, and an indirect 30% interest in the Ghauspur natural gas concession in Pakistan's central Indus Basin.

Oil and Gas – Financial Highlights

(thousands of dollars)	2002	2001
Revenue	$ 218,766	$ 176,689
Operating, selling, general and administrative	45,171	39,056
	173,595	137,633
Depletion and amortization	73,331	62,016
Site restoration and abandonment	1,405	1,630
Operating earnings	$ 98,859	$ 73,987
Capital expenditures	$ 90,912	$ 78,984



A sixth consecutive year of record oil production in Cuba, combined with high oil prices, increased revenue by 24% over the prior year to a record $218.8 million and resulted in record operating earnings of $98.9 million for the year, a 34% increase over 2001.

Operating, selling, general and administrative costs increased by 16% to $45.2 million in 2002, primarily due to higher production volumes and the expensing of certain costs that were previously allocated to capital projects, partially offset by lower treatment and transportation costs. On a net sales volume basis, operating, selling, general and administrative costs were $5.56 per barrel compared with $4.99 per barrel in 2001.

Depletion and amortization expense, based on net sales volume, was $9.02 per barrel in 2002 compared with $7.04 per barrel in 2001 (excluding a $6.8 million ceiling test write-down that year). The increase reflected a combination of capital expenditures, reserve adjustments and higher gross working interest production during the year (depletion is calculated based on gross working interest production).

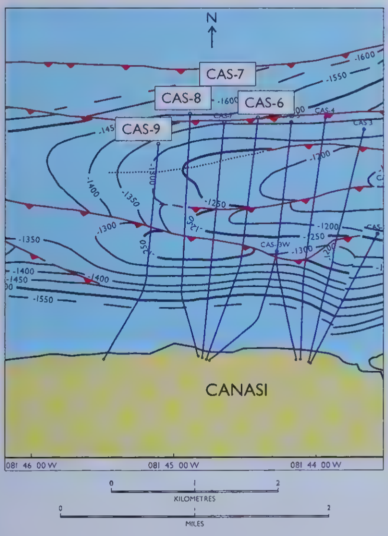
Oil and Gas – Volumes and Prices

	2002	2001
Gross Working Interest Oil Production (thousands of barrels)		
Cuba (1)	**13,963**	10,979
Spain	**215**	266
	14,178	11,245
Net Oil Sales Volume (thousands of barrels)		
Cuba (2)	**7,914**	7,568
Spain	**215**	266
	8,129	7,834
Realized Prices ($ per barrel)		
Cuba	**$ 26.57**	$ 21.49
Spain	**36.92**	37.58
Average Reference Prices (U.S.$ per barrel)		
U.S. Gulf Coast Fuel Oil No. 6	**$ 20.43**	$ 16.92

(1) Gross working interest production refers to oil production after allocation to joint venture partners but before allocation to agencies of the Cuban government.

(2) Gross working interest production in Cuba is allocated to the Corporation and agencies of the Cuban government in accordance with participation and production-sharing arrangements. Net working interest production or net sales volumes represents the Corporation's share of gross working interest production. Net working interest production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's costs within each block). These costs, upon certification by agencies of the Cuban government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by allocation of produced oil to the Corporation. Production allocated to agencies of the Cuban government is considered to be a royalty interest.

Approximately 96% of Oil and Gas revenue was derived from oil production in Cuba. Gross working interest oil production in Cuba increased by 27% in 2002 to average a record 38,256 barrels per day compared with 30,079 barrels per day in 2001. The higher production primarily arose from new wells in the Canasi, Puerto Escondido and Yumuri fields in Cuba. Sherritt's share of this production averaged 21,682 barrels per day in 2002 compared with 20,735 barrels per day in 2001. Following recovery of capital investments made in most of the production blocks during the year, Sherritt received a lower share of total oil production, reflecting the profit oil component of oil production, as stipulated in the production-sharing arrangements. The gross working interest exit rate of oil production for 2002 was approximately 46,870 barrels per day compared with 35,426 barrels per day at the end of 2001.



SOPHISTICATED HORIZONTAL DRILLING TECHNIQUES ALLOW OFFSHORE OIL DEPOSITS TO BE ACCESSED FROM ONSHORE DRILLING LOCATIONS.

During 2002, Sherritt concentrated its drilling efforts towards the development of known reserves along the north coast of Cuba in order to maximize production and take advantage of relatively high oil prices. A total of thirteen development wells and three exploration wells were drilled in Cuba during the year. All of the development wells were successful and are contributing to production. The first exploration well encountered reserves but failed to produce at economic rates. The other two exploration wells were suspended after failing to encounter the expected reservoir.

Net proved reserves in Cuba increased from 20.2 million barrels at the end of 2001 to 24.0 million barrels at the end of 2002, reflecting the benefit of successful development drilling during the year. These reserve increases were achieved at an average cost for finding and developing reserves of $6.90 per barrel.

Oil production in Cuba is sold to an agency of the Cuban government at sales prices based on an international reference price for fuel oil of comparable quality. The average U.S. Gulf Coast Fuel Oil No. 6 reference price increased 21% from U.S.$16.92 per barrel in 2001 to U.S.$20.43 in 2002, slightly below the five-year high of U.S.$20.76 experienced in 2000.

Natural declines continued in Spain and resulted in a 19% decrease in production during the year. In Pakistan, the government approved a plan for development of the Badar discovery, of which Sherritt's share is estimated to have a net total of 15.4 billion cubic feet of proven natural gas.

OTHER BUSINESSES

HIGHLIGHTS

> **75 megawatts combined cycle phase of the Varadero power generation project connected to Cuban power grid in February 2003**

> **Sherritt acquired all the shares of Sherritt Power and exchanged Sherritt Power's public debt for unsecured notes of Sherritt in March 2003**

> **Cubacel's cell phone subscriber base more than doubled to almost 18,000 customers**

> **Cubacel installing new equipment and technology to handle anticipated future growth**

SHERRITT POWER'S VARADERO COMBINED CYCLE FACILITY HAS BEEN CONNECTED TO THE CUBAN GRID.

Other Businesses

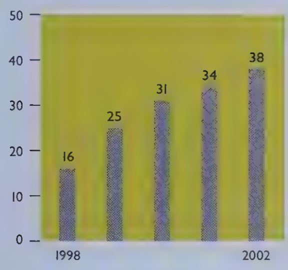
Other Businesses – Financial Highlights

(thousands of dollars)	2002	2001
Revenue	**$ 36,150**	$ 25,226
Operating, selling, general and administrative	**28,269**	17,942
	7,881	7,284
Depletion and amortization	**7,341**	6,864
Operating earnings	**$ 540**	$ 420
Share of loss of equity investments	**$ 2,016**	$ 679
Capital expenditures	**1,282**	5,024

Revenue and operating earnings from the Other Businesses segment is made up of Sherritt's share of the telecommunications and soybean-based food processing businesses. The share of loss of equity investments is comprised of Sherritt's share of income from tourism investments and the net loss of Sherritt Power. Sherritt Green, the Corporation's 50% interest in a Cuban market garden joint venture, is accounted for at cost.

Operating earnings from Other Businesses of $0.5 million were generated on revenues of $36.2 million in 2002 compared with operating earnings of $0.4 million on revenues of $25.2 million in 2001. The increase in earnings primarily resulted from the full-year impact of the PDS facility, which started selling products during the second quarter of 2001. The share of loss of equity investments increased by $1.3 million to $2.0 million primarily reflecting lower tourism earnings and a higher loss by Sherritt Power.

Cubacel minutes billed
(millions)



Revenue from the telecommunications business remained flat in 2002 at approximately $17.5 million. Cubacel's subscriber base more than doubled to almost 18,000 users by the end of 2002, reflecting strong growth in the prepaid subscriber market in response to new subscriber activation promotions in the latter half of the year. This increase was offset by a 31% decrease in average revenue per user to U.S.$189 per month. The reduction in the average revenue per user resulted from the significant increase in the number of prepaid subscribers, which tend to generate lower revenue per customer, and lower roaming revenue due to reduced tourism and competition from a new provider of international cellphone coverage.

The PDS plant, which produces texturized soy protein, soy flour, soy meal, crude soy oil and lecithin, primarily for the Cuban market, is currently operating at a reduced capacity as markets are developed for value-added products.

Sherritt Power's net loss increased in 2002 over the prior year reflecting a slight reduction in the amount of power sold as a result of scheduled inspection and maintenance work and higher expenses. Commissioning of Sherritt Power's combined cycle phase of the Varadero project commenced in late 2002 and, as of the first quarter of 2003, the facility is connected to the Cuban grid and ramping up to supply an additional 75 megawatts of net power capacity. Once the Varadero combined cycle facility is fully on stream, Sherritt Power will have a one-third interest in net power capacity of 226 megawatts, representing about 10% of Cuba's electricity requirements. These facilities are designed to produce low-cost reliable power utilizing natural gas from Cuba's petroleum fields and to recover natural gas liquids and sulphur from the gas stream, providing a positive impact on air quality.

Delays in the construction schedule of the combined cycle phase of the Varadero plant have resulted in a delay in the expected revenue stream from this phase and increased capital costs. In 2002, Sherritt Power announced that it was evaluating various alternatives to provide the necessary financial flexibility to meet the scheduled repayment under its 12.125% notes in March 2003 and to provide the funds to invest in gas-related infrastructure. In January 2003, Sherritt made a proposal to Sherritt Power that would result in owners of Sherritt Power's equity and 12.125% notes exchanging their interests for equity and unsecured notes of Sherritt. Sherritt Power security holders accepted the enhanced proposals March 25, 2003 and the transactions were completed March 28, 2003. Owners of the Sherritt Power notes (other than Sherritt) received approximately 12.7% of the principal value of the Sherritt Power notes in cash and 87.3% of the principal value of the notes in the form of 9.875% Sherritt senior unsecured notes due March 31, 2010. The transactions also provided common shareholders of Sherritt Power (other than Sherritt) 1.45 restricted voting shares of Sherritt for each common share of Sherritt Power owned. As a result, Sherritt Power has become a wholly owned subsidiary of Sherritt.

Reduced levels of global tourism impacted occupancy at the two hotels the Corporation partially owns, resulting in lower earnings by our tourism investments.

Capital expenditures by the Other Businesses unit of $1.3 million during the year were largely incurred by the telecommunications business to support the development of an internet service provider business and replacement of equipment and software. Cubacel acquired a new switch, which is expected to be operational during the second quarter of 2003, to ensure sufficient capacity exists to handle anticipated future growth.

Sherritt has total assets of approximately $2.2 billion following the purchase of Fording's prairie operations and the successful completion of the Sherritt Power amalgamation. Strong earnings and operating cash flows are expected during 2003, reflecting the inclusion of Fording's prairie operations and Sherritt Power on a 100% basis, and the belief commodity prices will remain strong during the year. A number of initiatives will be considered to address lower overall cash balances following the investments made in the first quarter of 2003.

Management continues to evaluate prospects for growth and intends to utilize this strong asset base and cash flow to implement growth opportunities as well as to pursue initiatives to unlock shareholder value.

Coal

Sherritt's share of coal production is expected to be approximately 17 million tonnes in 2003, reflecting the purchase of Fording's prairie assets and the transfer of the Luscar and Line Creek mines at the end of February 2003. The net result of these transactions is expected to increase operating earnings of the Coal business in 2003. Sherritt's share of net earnings of the Coal business in 2003 will also include distributions from Fording Trust units including those received by Luscar through the transfer of its metallurgical coal assets and the Fording Trust units purchased directly by Sherritt. Net earnings from Coal will also include approximately $10 million of income anticipated as a recovery through one of Luscar's coal supply agreements in connection with the redemption of a promissory note in May 2003.

Export thermal coal markets are expected to continue to experience oversupply and low prices during 2003. The Coal Valley and Obed Mountain mines were cut back to dragline only operations in late 2002 and in early 2003 operations were suspended at Obed Mountain. This will reduce sale of thermal coal in export markets and via rail delivery in Canadian markets by about 1.5 million tonnes. These two mines may face further adjustments to output levels depending on market conditions for thermal coal.

Capital expenditure expectations for the Coal business are approximately $28 million in 2003, including expenditures on the newly acquired thermal coal operations.

Metals

The Metals business has a demonstrated ability to operate pressure hydrometallurgical processes for the production of high-quality nickel and cobalt. Production capabilities are expected to remain essentially unchanged in the short term, with efforts concentrated on incremental process improvements, sustaining capital and environmental initiatives. Longer term, Sherritt will continue to review opportunities to expand the output capability of Metals in order to take advantage of abundant lateritic nickel deposits in Cuba and the strengthening nickel prices expected over the next few years, reflecting a continuation of increased stainless steel demand, low availability of stainless steel scrap and the absence of significant new global nickel production capacity. Sherritt will also review opportunities to minimize the impact of expected continued high energy and raw material costs, which would offset some of the potential gains from the anticipated higher nickel prices.

Capital expenditures for the Metals business are expected to be approximately $20 million in 2003.

Oil and Gas

The Oil and Gas business is expected to continue its strategy of balanced reserve growth and generation of sustainable levels of free cash flow. Sherritt's 2003 net oil production in Cuba is expected to remain relatively constant with the level experienced in 2002.

Capital expenditures are expected to be approximately $110 million for 2003 and will be mainly focused on continued development of known reserves along the north coast heavy oil trend in Cuba, construction of facilities, seismic commitments for the newly acquired offshore blocks and exploration drilling in the vicinity of the Varadero producing trend.

Opportunities will also be sought internationally for new prospects utilizing Sherritt's expertise in operating in fold and thrust belt geologies and with horizontal drilling technologies.

Other Businesses

Sherritt will continue to consider incremental power or steam generation opportunities, particularly in Canada where it can utilize its extensive coal reserves. Sherritt will also consider opportunities for gas-related or other forms of power generation in Canada and internationally.

Cubacel intends to continue its strategy of aggressively expanding its subscriber base. During 2002, discussions commenced with Cuban regulators regarding options to expand in Cuba and with compatible cellular providers in Canada for automatic roaming capabilities in Cuba, both of which will provide additional revenue for Cubacel.

PDS will pursue opportunities to maximize consumption of its products in Cuba as well as continue to develop markets for its value-added products internationally.

Sherritt will continue to pursue opportunities to enhance returns from these businesses as well as evaluate their performance in terms of their long-term carrying value.

Changes in Accounting Policy

There have been recent releases related to changes in accounting standards in Canada. These include rules for determining when hedge accounting may be used, financial instruments recognition and measurement, guarantees and special purpose entities. The Corporation is in the process of assessing the impact of these releases. Although the assessment is not complete, the Corporation does not believe that these releases will have a significant impact on its financial results.

Sherritt is exposed to a number of risks in each of its businesses. Sherritt's general philosophy is to manage risks to the Corporation and each of its businesses to an acceptable level, without hindering the ability to maximize returns. Management has established procedures to identify and manage significant operational and financial risks.

Sherritt implemented a number of credit risk policy improvements during 2002. These included changes to sales contracts, procedures for contract approvals and ongoing evaluation of credit terms for existing customers. Guidelines were also established for the use of credit insurance to reduce the risk of collection of customer receivables.

Significant business risks and strategies designed to manage such risks are discussed below.

Commodity Risk

Sherritt's principal businesses include the sale of several commodities. Revenues, earnings and cash flows from the sale of nickel, cobalt, oil and export-destined coal are sensitive to changes in market prices, over which the Corporation has little or no control. The Corporation has the ability to address its price-related exposures through the limited use of options, futures and forward contracts; however, the Corporation generally does not enter into such arrangements. Sherritt reduces the business cycle risks inherent in its commodity operations through industry diversification.

Market risks associated with commodities used by Sherritt's businesses are not considered material to the Corporation's overall financial position, results of operations or liquidity. However, in order to manage price volatility related to certain consumables, Sherritt's businesses may on occasion enter into short-term purchase arrangements that fix the price for certain commodities, including diesel fuel, natural gas, electric power, sulphuric acid and sulphur.

Currency Fluctuations

Many of Sherritt's businesses undertake transactions in currencies other than the Canadian dollar. The Corporation is also sensitive to foreign exchange exposures when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. The Corporation has the ability to address its currency-related exposures through the use of foreign exchange contracts, however generally does not enter into such arrangements. The Coal business has U.S. dollar denominated debt, of which Sherritt's share is U.S.$137.5 million. Interest on this debt is payable in U.S. dollars and acts as a natural hedge against currency fluctuations related to a portion of Sherritt's U.S. dollar denominated revenue.

Sensitivity Analysis

The following table identifies the approximate sensitivity of Sherritt's 2002 financial results to changes in selected product prices and volumes. These may not necessarily be indicative of sensitivities on future results. Sensitivities have not been provided for the Coal business since, as a result of the transfer of its metallurgical coal assets to the Fording Trust in early 2003, the majority of Luscar's coal is now sold under long-term coal supply agreements at prices that tend to be stable.

Sensitivity of Earnings to Changes in Certain Commodity Prices and Volumes

Factor	Change	Approximate annual change in net earnings (millions of dollars)	Approximate annual change in basic EPS ($/share)
Prices			
Nickel – LME price per pound	U.S.$0.10	2.8	0.03
Cobalt – Metal Bulletin price per pound	U.S.$1.00	2.7	0.03
Oil – U.S. Gulf Coast Fuel Oil No. 6 price per barrel	U.S.$0.50	3.5	0.04
Volumes			
Nickel – tonnes	1,000	2.0	0.02
Cobalt – tonnes	100	0.3	–
Oil – barrels per day	1,000	5.0	0.05

Interest Rates

Short-term borrowings of $32.1 million at December 31, 2002, used to meet working capital requirements, are largely financed at variable interest rates. To manage the risk of increases in interest rates, the Corporation's long-term debt obligations have fixed rates of interest that range from 6% to 12.75% and have maturities ranging from 2004 to 2011. As at December 31, 2002, approximately 91% of the Corporation's total debt was subject to fixed interest rates.

The Coal business has an interest rate swap outstanding, which fixes the interest rate of $50.0 million of floating rate debt at 5.72% plus the applicable interest rate margin. This swap matures in December 2003 and was originally established to hedge Luscar Coal's exposure to its floating interest rate debt, which was repaid in October 2001. No other derivative financial instruments were utilized to mitigate interest rate risk.

Significant Customers

Five of Luscar's mines derive substantially all of their respective revenue from single customers or groups of affiliated customers and Sherritt's newly acquired interests in the Genesee mine and the Highvale and Whitewood mine contracts are each tied to a single customer. The loss of one or more of these customers could result in the closure of the respective mine, the loss of the mining contract or, in some cases, the sale of the mine to the customer.

The Oil and Gas business and Sherritt Power derive substantially all of their respective revenue from single customers, both of which are agencies of the Government of Cuba. PDS has a relatively wide customer base; however, most of these customers are agencies of the Government of Cuba. The ability of Cuban entities to make payments in foreign currencies and the Cuban government's future policies relating to foreign investors and foreign exchange payments could be affected by the political environment and economic pressure resulting from its limited access to foreign exchange. Sherritt is entitled to the benefit of certain assurances received from the Government of Cuba and certain agencies of the Government of Cuba that protect it from adverse changes in law, although such changes remain beyond the control of the Corporation and the effect of any such changes cannot be accurately predicted. Since 2000, Sherritt has had an arrangement to provide extended terms of credit for oil sales in Cuba during periods of high oil prices. Payment terms may be extended under this arrangement up to 180 days and bear interest at 14%.

Environment, Health and Safety Considerations

Sherritt is committed to responsible environmental management and the health and safety of its employees. Environmental laws and regulations are continually evolving in all locations where the Corporation operates. Compliance with environmental regulations can require significant expenditures and there can be no assurance that the costs to ensure compliance would not materially affect the Corporation's financial condition or results of operations. Furthermore, changes in environmental legislation or regulations may also have a material adverse affect on product demand and methods of production and distribution, the impact of which is not possible to predict.

The Corporation's board of directors has an environmental, health and safety committee, which has a mandate to review environmental, health and safety policies and programs, oversee the Corporation's related performance and monitor current and future regulatory issues.

Coal mining in Canada is subject to extensive regulation by federal, provincial and local authorities. Luscar is a leader in reclamation management, restoring mined lands after coal has been removed and has won several major awards in recognition of these efforts. Regular environmental audits, which Luscar conducts at each of its mines, identify opportunities to improve environmental compliance.

During 2002, the Sheerness mine celebrated its seventh year, representing over one million employee-hours, without a lost-time injury. Luscar made a significant capital investment to increase the capacity of its land reclamation fleet in Saskatchewan. Luscar's reclamation of the former Gregg River mine will be substantially complete by the end of 2003. Luscar is a member, along with a number of its utility customers, of the Canadian Clean Power Coalition. The coalition has announced its intent to test the environmental, technical and economic viability of clean coal technology through the retrofit of a power plant by 2007 and the construction of a new clean coal power plant by 2010. Through these projects, the coalition will enhance the position of coal as a cost-efficient and environmentally responsible energy source for the future.

Metals' Fort Saskatchewan operations, together with industry, government and the community, support a regional management system to address cumulative environmental effects related to present operations. In 2002, the Corporation completed a project to transmit all air monitoring data to the Fort Air Partnership. The partnership's mandate is to supply relevant and credible data to the public, via a website, for the purpose of air quality management within the Fort Saskatchewan regional air shed. The Fort Saskatchewan site continued to demonstrate strong health and safety performance by achieving one million exposure-hours without a lost-time injury in 2002.

Environmental regulations in Cuba relating to mining operations are generally consistent with international standards. In 1994, the Cuban government granted the Metals Enterprise a grace period until December 1, 2004 to comply with any existing or new environmental laws in force in Cuba up until that time. Certain conditions and practices that existed at the time of acquisition of the Corporation's interest in the Moa mining and processing facilities were not in compliance with today's regulations. Several environmental initiatives have been initiated since 1994 in order to address these non-compliance issues and many have been resolved. During 2002, the Corporation completed the installation of two portable ambient air-monitoring stations, the first such stations in Cuba. These stations have the capability of monitoring air quality within the region by providing real-time ground level concentrations of sulphur dioxide and particulates. The health and safety performance at Moa continues to lead the Cuban mining industry.

Site 41: Redwater
Time of Data: Monday, March 24, 2003
8:00:00 AM Mountain Standard Time

Parameter	Hourly Average
10M WS Avg	12.3 km/hr
10M WD Avg	265 Deg
SO2 Avg	0.000 ppm
NO2 Avg	0.006 ppm
NH3 Avg	0.000 ppm
RH Avg	66.1%
Delta Temp Avg	–0.1°C
10M Amb Temp Avg	–2.0°C
2M Amb Temp Avg	–1.8°C

http://www.fortair.org/

SHERRITT'S FORT SASKATCHEWAN REFINERY PARTICIPATES IN AN INNOVATIVE COMMUNICATIONS PROGRAM PROVIDING LOCAL RESIDENTS WITH ON-LINE CREDIBLE INFORMATION ON AIR QUALITY.

Sherritt Oil and Gas conducts its operations in Cuba according to safety standards and practices equivalent to those established by the Government of Alberta. Oil and Gas operations in Cuba are typically conducted in producing areas where hydrogen sulphide gas is naturally associated with crude oil. Proper safety equipment is provided and employees are trained in working in environments where hydrogen sulphide gas may be present. A Cuban environmental agency conducts a quarterly air-quality monitoring program in operating areas. Prevention of the escape of hydrogen sulphide gas to the atmosphere is an ongoing focus of environmental protection programs.

Accounting provisions are made on an annual basis for future site restoration liabilities based on an estimate of the future liabilities, estimated remaining lives of properties, environmental laws and regulations and remaining reserve lives. Estimated future liabilities may be affected by changes in environmental laws and regulations and changes in operating assumptions. Future changes, if any, in regulations and cost estimates may be significant and may result in the need to change accounting estimates of environmental liabilities. The Corporation has estimated future site restoration obligations, which it believes will meet current regulatory requirements, to be approximately $95 million (including amounts already accrued).

Political Risk

The Corporation is affected by the difficult political relationship between the United States and Cuba. The United States prohibits U.S. citizens from engaging in virtually all transactions involving Cuba. The U.S. embargo thus limits Sherritt's access to U.S. capital, finance, customers and suppliers.

Under the HELMS-BURTON ACT, a law enacted in the United States in March 1996 (the "1996 Law"), U.S. nationals whose property was "confiscated", without compensation, by the Government of Cuba are entitled to sue, for up to treble damages, anyone who uses, profits from, or otherwise "traffics" in the confiscated property. The 1996 Law authorizes the President of the United States to suspend indefinitely, for successive periods of six months or less, the right of otherwise eligible claimants to file 1996 Law lawsuits. Effective February 2003, the President suspended for the fourteenth successive six-month period the right to file any such lawsuits, currently through to July 31, 2003. In July 2003, the President must announce whether he will renew that suspension for another period of up to six months.

The Corporation has received letters from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. The 1996 Law may encourage these claimants to seek damages against the Corporation if the suspension of the right to file lawsuits is not renewed. Because 1996 Law lawsuits have not been authorized, the interpretation of the law by the U.S. courts is uncertain. Uncertainties over the interpretation of the 1996 Law may impose limitations on the Corporation's non-Cuban operations and on third parties that deal with the Corporation, thus affecting its commercial relationships.

Neither the Corporation nor its subsidiaries hold assets located in the United States. In addition, the FOREIGN EXTRATERRITORIAL MEASURES ACT (Canada) was amended as of January 1, 1997 to provide that any judgment given under the 1996 Law will not be recognized or enforceable in any manner in Canada. The amendments permit the Attorney General of Canada to declare, by order, that a Canadian corporation may sue for and recover in Canada any loss or damage it may have suffered by reason of the enforcement of a 1996 Law judgment abroad. In such a proceeding, the Canadian court could order the seizure and sale of any property in which the defendant has a direct or indirect beneficial interest, or the property of any person who controls or is a member of a group of persons that controls, in law or in fact, the defendant. The property seized and sold could include shares of any corporation incorporated under a law of Canada or a province.

The federal Government of Canada has also responded to the 1996 Law through diplomatic channels. Other countries, such as the members of the European Union and the Organization of American States, have expressed their strong opposition to the 1996 Law.

More generally, the U.S. embargo, adverse developments in U.S. law and underlying political tensions between the United States and Cuba are matters beyond the Corporation's control.

Significant Litigation

In October 2001, the Corporation received a statement of claim setting out a claim against it and Dynatec Corporation, brought in the Supreme Court of Victoria, Australia, by Fluor Australia Pty Ltd ("Fluor"). The claim related to alleged deficiencies in the facilities of Anaconda's Murrin Murrin mine development in Australia. The alleged deficiencies are also the subject of an ongoing arbitration commenced by Anaconda against Fluor, which was retained by Anaconda to provide engineering, procurement and construction services. Anaconda alleges that Fluor breached the services contract between them. Phase 1 of the arbitration proceedings has been completed and an award was handed down in September 2002. The Corporation understands that Phase 2 of the arbitration will commence later this year. On December 20, 2002 Fluor formally discontinued its proceeding against the Corporation and Dynatec, but reserved its rights to recommence proceedings against them at a later date. The Corporation believes Fluor's claims against it are without merit and will vigorously defend any further claim Fluor may bring.

Sherritt may also become party to legal claims arising in the ordinary course of business. Management is of the opinion that the resolution of such known claims should not have a material adverse impact on Sherritt's financial position. However, there can be no assurance that unforeseen circumstances will not result in significant costs.

Financial Statements

CONTENTS

Management's Report

Management is responsible for the preparation of the accompanying consolidated financial statements of the Corporation in accordance with Canadian generally accepted accounting principles, and for its discussion and analysis of results and financial condition, which information is consistent with the financial statements. Systems of internal control are maintained by the Corporation to provide reasonable assurance of the completeness and accuracy of the financial information. These systems include the delegation of authority and segregation of responsibilities among qualified personnel in accordance with operating and financial policies and procedures. The Board of Directors appoints an audit committee, which meets with representatives of the Corporation's financial personnel and the Corporation's independent auditors. The committee reviews the Corporation's accounting policies and the scope and the results of the independent auditors' examination of the Corporation's financial statements. The Corporation also has an internal audit function that evaluates and formally reports to management and the audit committee on the adequacy and effectiveness of internal controls. The independent auditors, who are appointed by the shareholders, examine and report on the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. The auditors' report to the shareholders of the Corporation is set out below. The accompanying consolidated financial statements have been reviewed and approved by the Board of Directors and the audit committee.

Dennis G. Maschmeyer
President and Chief Executive Officer

Jowdat Waheed
Senior Vice President, Finance and
Chief Financial Officer

February 27, 2003

Auditors' Report

To the Shareholders of Sherritt International Corporation:

We have audited the consolidated balance sheets of Sherritt International Corporation as at December 31, 2002 and 2001 and the consolidated statements of operations, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Toronto, Canada
February 27, 2003

Consolidated Balance Sheets

as at December 31

(thousands of Canadian dollars)	2002	2001
ASSETS		
Current assets		
Cash and short-term investments	$ 192,958	$ 124,078
Restricted cash	17,627	23,829
Advances and loans receivable (note 7)	38,495	42,181
Accounts receivable	251,402	257,614
Inventories (note 4)	112,989	97,454
Overburden removal costs	14,702	14,113
Prepaid expenses	7,935	9,402
Future income taxes	4,704	1,954
	640,812	570,625
Capital assets (note 5)	1,124,312	1,139,007
Investments (note 6)	99,525	143,407
Future income taxes	38,151	27,736
Other assets (note 7)	122,688	117,639
	$ 2,025,488	$ 1,998,414
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt (note 18)	$ 32,101	$ 36,027
Accounts payable and accrued liabilities	130,935	103,097
Current portion of long-term debt (note 10)	12,536	1,607
Site restoration and abandonment (note 9)	8,696	10,501
Future income taxes	1,667	1,400
Swaps and forward contracts (note 18)	1,471	2,162
	187,406	154,794
Long-term debt (note 10)	242,726	259,254
Site restoration and abandonment (note 9)	45,151	44,325
Future income taxes	190,862	217,783
Swaps and forward contracts (note 18)	–	1,411
Minority interest	5,059	3,989
	671,204	681,556
Shareholders' equity		
Convertible debentures (note 11)	587,314	587,314
Capital stock (note 12)	450,957	450,716
Contributed surplus (note 13)	199,787	199,787
Retained earnings	116,226	79,041
	1,354,284	1,316,858
	$ 2,025,488	$ 1,998,414

Approved on behalf of the Board

Rupert Pennant-Rea, Director

Daniel P. Owen, Director

Rupert Pennant-Rea

Daniel P. Owen

Consolidated Statements of Operations

years ended December 31

(thousands of Canadian dollars except per share amounts)	2002	2001
Revenue	$ 806,398	$ 636,618
Operating, selling, general and administrative expenses	518,896	431,933
Earnings before undernoted items	287,502	204,685
Depletion and amortization	144,523	118,768
Write-down of investment (note 6)	37,000	23,441
Amortization of goodwill	–	1,357
Provision for site restoration and abandonment (note 9)	9,717	7,462
Share of loss of equity investments	2,016	679
Net financing expense (income) (note 15)	8,525	(4,437)
Minority interest	1,070	1,124
Earnings before income taxes	84,651	56,291
Income taxes (note 16)		
Current	28,413	5,379
Future	(4,211)	(683)
	24,202	4,696
Net earnings	$ 60,449	$ 51,595
Earnings per restricted voting share (note 12)		
Basic	$ 0.38	$ 0.34
Diluted	0.36	0.33

Consolidated Statements of Retained Earnings

years ended December 31

(thousands of Canadian dollars)	2002	2001
Beginning of year	$ 79,041	$ 71,168
Net earnings	60,449	51,595
Interest on convertible debentures (note 11)	(23,264)	(21,938)
Dividends on restricted voting shares	–	(21,784)
End of year	$ 116,226	$ 79,041

Consolidated Statements of Cash Flow

years ended December 31

(thousands of Canadian dollars)	2002	2001
Operating activities		
Net earnings	$ 60,449	$ 51,595
Items not affecting cash		
Depletion and amortization	144,523	118,768
Write-down of investment	37,000	23,441
Amortization of goodwill	–	1,357
Site restoration and abandonment (note 9)	(979)	(234)
Future income taxes	(4,211)	(683)
Foreign exchange (gains)	(4,884)	(5,364)
Other items	3,197	6,188
Cash provided before working capital changes	235,095	195,068
Decrease (increase) in non-cash working capital and other items		
Accounts receivable	6,212	(35,858)
Inventories	(15,535)	(3,468)
Overburden removal costs	(589)	433
Prepaid expenses	1,467	3,172
Accounts payable and accrued liabilities	27,838	(6,810)
Future income taxes	(20,971)	–
	(1,578)	(42,531)
Cash provided by operating activities	233,517	152,537
Investing activities		
Capital expenditures	(132,047)	(113,567)
Net proceeds from sale of capital assets	7,948	7,848
Acquisition of business (note 17)	–	(136,039)
Investments	3,148	11,255
Restricted cash	6,202	(3,339)
Other assets	(6,447)	(38,299)
Cash used for investing activities	(121,196)	(272,141)
Financing activities		
Short-term indebtedness	(3,926)	(156,821)
Long-term indebtedness	(3,756)	216,558
Convertible debenture interest payments (note 11)	(36,000)	(36,000)
Dividends on restricted voting shares	–	(21,784)
Issue of restricted voting shares	241	876
Cash provided by (used for) financing activities	(43,441)	2,829
Increase (decrease) in net cash	68,880	(116,775)
Net cash at beginning of year	124,078	240,853
Net cash at end of year	$ 192,958	$ 124,078

Net cash consists of cash and short-term investments.

In 2002, the Corporation received interest of $14.2 million (2001 – $20.8 million), paid interest on indebtedness of $32.3 million (2001 – $17.5 million) and paid income taxes of $37.6 million (2001 – $7.0 million).

Notes to Consolidated Financial Statements

(all dollar tabular amounts expressed in thousands of Canadian dollars except per share amounts)

1 Nature of operations

Sherritt International Corporation (the "Corporation") is a diversified Canadian natural resource company that operates in Canada, Cuba and internationally. The Corporation, either directly or through subsidiaries, has significant interests in thermal coal production; a vertically-integrated nickel/cobalt metals business; oil and gas exploration, development and production; and electricity generation. The Corporation also has interests in telecommunications, soybean processing, tourism and agriculture.

2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles including the following:

(a) Principles of consolidation
The consolidated financial statements include the financial position, results of operations and cash flow of the Corporation, its subsidiaries and its proportionate interest in joint ventures. Other entities which are not controlled but over which the Corporation has the ability to exercise significant influence are accounted for using the equity method of accounting. Investments in which the Corporation does not have significant influence are accounted for using the cost method of accounting.

(b) Accounting changes
During the first quarter of 2002, the Corporation adopted new recommendations of the Canadian Institute of Chartered Accountants ("CICA") on accounting for stock-based compensation and goodwill and intangible assets.

Under the new accounting policy for stock-based compensation, grants of participation units under the stock-linked compensation plan, which are awards that call for settlement in cash, are accounted for in accordance with the fair-value based methodology, whereby the difference between the market price and the exercise price is included in compensation expense over the period in which the participation units vest. Previously, compensation expense was recognized for stock-linked compensation when participation units vested. No other changes were required and no adjustments were required to opening retained earnings as a result of the adoption of this new accounting policy. Under the new accounting policy for goodwill and intangible assets, the Corporation ceased amortization of goodwill on January 1, 2002 and now tests for impairment on an annual basis. Previously, goodwill was amortized over its estimated useful life of 15 years. This change in policy has been applied prospectively. The Corporation completed the required annual impairment tests during the second quarter of 2002 and concluded that there was no impairment of goodwill.

In the fourth quarter of 2001, the Corporation retroactively adopted the new recommendations of the CICA on foreign currency translation. The new rules require unrealized gains and losses on the translation of long-term monetary assets and liabilities to be included in income. Previously, such gains and losses were deferred and amortized over the life of the respective asset or liability. Retroactive adoption of this policy had no impact on income from previous years.

(c) Revenue recognition
Revenue is recognized upon transfer of title to the customer based on contractual agreements and selling prices. For domestic coal sales to power-generating utilities, this occurs when the coal is delivered to the generating station; for other domestic customers, this occurs when the coal is loaded at the mine. Export coal revenue is generally recognized when the coal has been loaded and the vessel has departed the shipping location. Metals revenue is recognized when the product is shipped from the warehouse or when it arrives at the destination, depending upon the terms of the sales contract. Oil revenue is recognized upon production based on the Corporation's working interest. Monthly fees in the Telecommunications business are recognized on a pro rata basis over the month and service revenue is recognized as the service is provided.

(d) Translation of foreign currencies
The functional currency of the Corporation is Canadian dollars. Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange with the resultant gains or losses included in income. All of the Corporation's foreign operations are considered integrated and are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities, and average rates of exchange for revenues and expenses, except depletion and amortization which are translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income.

(e) Inventory valuation
Finished products, raw materials and materials in process are valued at the lower of average production cost and net realizable value. Spare parts and operating materials are valued at the lower of average cost and replacement cost.

(f) Overburden removal costs
In the Coal business, costs incurred for overburden removal related to future coal production are recorded as current assets. Overburden removal costs are charged to earnings at average cost when the coal is produced.

(g) Capital assets

(i) Capitalization
Capital assets are stated at cost, which includes capitalized interest.

In mining operations, costs of exploring for new ore occurrences are charged to earnings in the period in which they are incurred. When it has been established that a mineral property has development potential, which occurs upon completion of a bankable feasibility study detailing proven and probable reserves of the mineral property, the costs incurred to develop a mine on the property and further development costs prior to the start of mining operations are capitalized. The carrying value of deferred development costs is periodically reviewed using undiscounted cash flows.

In the Oil and Gas business, the Corporation follows the full cost method of accounting, whereby all costs associated with the exploration and development of oil and gas reserves are capitalized in cost centres on a country-by-country basis. These costs include land acquisitions, drilling of productive, non-productive and dry or abandoned wells, geological and geophysical surveys, and overhead expenses related to exploration and development activities. Costs associated with dry or abandoned wells on proved properties in producing cost centres are charged to the full cost pool and subjected to depletion.

Oil and Gas expenditures, net of revenues, incurred in cost centres which are in the pre-production stage of development are capitalized until such time as planned significant operations commence. The recovery of the Corporation's investments in pre-production stage cost centres is subject to finding and producing oil and gas reserves in economic quantities. The Corporation periodically reviews the costs associated with unproved properties and pre-production stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

Proceeds from the disposition of oil and gas properties are accounted for as a reduction in capitalized costs, with no gain or loss recognized unless such disposition would alter the depletion rate by more than 20%.

(ii) Ceiling test
Under the full cost method of accounting, the net carrying cost of oil and gas properties is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from the proved reserves and the costs of undeveloped properties less impairment allowances, costs to develop proved undeveloped properties, future general and administrative costs, site restoration and abandonment costs, financing costs, and income taxes. Future net revenues are calculated using current or contracted prices, where applicable. Independent engineers have evaluated estimates of proved developed and undeveloped reserves and related future net revenues and development costs.

(iii) Depletion and amortization
Processing, refining, and other manufacturing facilities are amortized using the straight-line method based on estimated useful lives. Such lives are generally limited to a maximum of 40 years.

Mine reserves are depleted over their estimated reserve life using the unit of production method based on proven and probable reserves that do not require additional capital costs in order to access them. Oil and gas properties and equipment are depleted using the unit of production method for proved properties. Management periodically reviews its estimates of proved reserves and reflects the appropriate adjustments in the depletion calculations.

(h) Site restoration and abandonment costs
Site restoration and abandonment costs are provided for by a systematic charge to earnings when reasonably determinable. Provisions are calculated on an undiscounted basis and are based upon engineering estimates of costs, taking into consideration the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible uses of the site.

(i) Intangible assets
The cellular telephone concession is amortized over its estimated useful life of 15 years. Management periodically assesses the value of the cellular telephone concession and goodwill by considering current operating results, trends and prospects.

(j) Financial instruments
Options, futures, swaps and forward exchange contracts may be used to hedge the impact of changes in prices of commodities produced or used or foreign currencies expected to be received or expended. Gains or losses on these financial instruments that are designated as hedges by the Corporation are recorded on settlement of the financial instrument and reported as a component of the related transactions. To the extent that these financial instruments are not designated as hedges, the value of these financial instruments is marked to market with the resulting gains and losses included in income. The Corporation may be exposed to losses if the counterparties to the above contracts fail to perform. The Corporation manages this risk by dealing with financially sound counterparties and by establishing dollar and term limitations for each counterparty.

Cash and short-term investments represent amounts that generally have original maturity dates of three months or less.

Short-term investments are primarily liquid government treasury bills, bankers' acceptances and bearer deposit notes of authorized banks and other appropriately rated commercial paper. Investment guidelines limit investment exposure to any one entity.

(k) Income taxes
The Corporation follows the liability method of accounting for income taxes. Future income taxes reflect the tax effect of differences between the book and tax basis of assets and liabilities.

(l) Stock-based compensation plans
The Corporation has chosen to disclose the impact of accounting for all awards issued under these plans subsequent to January 1, 2002, using the fair value based method described in the notes to the financial statements. The Corporation's stock-based compensation plans are described in note 14. No compensation expense is recognized when stock options are issued under the Employee and Director Stock Option Plan or stock issued under the Employee Share Purchase Plan. Any consideration paid by employees on the exercise of stock options or the purchase of stock is credited to capital stock. Shares issued under the Incentive Savings Plan are included as part of compensation expense. Participation units granted after January 1, 2002 under the stock-linked compensation plan are awards that call for settlement in cash. Compensation expense for these units is recognized over the vesting period, and is determined based on the difference between the market price of the unit and the exercise price at the end of each reporting period. Compensation expense was recognized when the units vested for participation units granted prior to January 1, 2002.

(m) Post-retirement benefits
Certain employees are covered under defined benefit pension plans, which provide pensions based on length of service and final average earnings. These pension plans are accounted for using the projected benefits method prorated on service to account for the cost of defined benefit pension plans. Pension costs are based on management's best estimate of expected plan investment performance, salary escalation and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on market interest rates as at the measurement date for high quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at market-related value. Market related values are calculated using a five-year average value of plan assets. The net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the remaining service life of active employees.

(n) Deferred financing costs
Deferred financing costs are included as part of other assets and are amortized over the term of the respective loans.

(o) Estimates
Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3 Interest in joint ventures

Joint ventures comprise the Corporation's 50% indirect interest in Luscar Energy Partnership ("Luscar Energy"); a 50% indirect interest in the Metals Enterprise, comprising a mining and processing facility in Moa, Cuba, a metals refinery in Fort Saskatchewan, Alberta and a metals marketing operation; a subsidiary's 40% indirect interest in Teléfonos Celulares de Cuba S.A. ("Cubacel"), a business providing cellular telephone services in Cuba; and a 49% indirect interest in Procesadora de Soya S.A. ("PDS"), a soybean-based food processing facility located in Santiago de Cuba, Cuba.

The Corporation's interest in joint ventures is summarized below:

2002	**Coal**	**Metals**	**Other**	**Total**
Consolidated Balance Sheets				
Current assets	**$ 128,645**	**$ 92,370**	**$ 15,298**	**$ 236,313**
Long-term assets	**619,543**	**176,646**	**34,462**	**830,561**
Current liabilities	**52,857**	**36,245**	**18,048**	**107,150**
Long-term liabilities	**439,837**	**29,741**	**21,715**	**491,293**
Consolidated Statements of Operations				
Revenue	**298,557**	**198,718**	**36,150**	**533,425**
Expenses	**289,807**	**173,963**	**37,780**	**501,550**
Net earnings (loss)	**8,750**	**24,755**	**(1,630)**	**31,875**
Consolidated Statements of Cash Flow				
Cash provided by (used for) operating activities	**31,475**	**58,162**	**(8,914)**	**80,723**
Cash provided by (used for) investing activities	**(26,326)**	**(10,741)**	**895**	**(36,172)**
Cash provided by (used for) financing activities	**(16,934)**	**–**	**7,172**	**(9,762)**

2001	Coal	Metals	Other	Total
Consolidated Balance Sheets				
Current assets	$ 132,220	$ 101,304	$ 12,694	$ 246,218
Long-term assets	637,068	165,877	80,650	883,595
Current liabilities	50,353	36,674	12,147	99,174
Long-term liabilities	473,214	27,984	21,714	522,912
Consolidated Statements of Operations				
Revenue	204,450	180,613	25,226	410,289
Expenses	196,053	175,804	25,335	397,192
Net earnings (loss)	8,397	4,809	(109)	13,097
Consolidated Statements of Cash Flow				
Cash provided by operating activities	29,358	33,440	12,509	75,307
Cash used for investing activities	(9,498)	(14,828)	(7,077)	(31,403)
Cash provided by (used for) financing activities	31,780	(8,000)	(3,390)	20,390

4 Inventories

	2002	2001
Raw materials	**$ 5,733**	$ 6,662
Materials in process	**27,725**	22,397
Finished product	**49,975**	39,430
Spare parts and operating materials	**29,556**	28,965
	$ 112,989	$ 97,454

5 Capital assets

2 0 0 2	**Cost**	**Accumulated amortization and depletion**	**Net book value**
Coal	**$ 677,025**	**$ 70,615**	**$ 606,410**
Metals	**290,409**	**99,464**	**190,945**
Oil and Gas	**900,435**	**630,733**	**269,702**
Other	**96,846**	**39,591**	**57,255**
	$ 1,964,715	**$ 840,403**	**$ 1,124,312**

2 0 0 1	Cost	Accumulated amortization and depletion	Net book value
Coal	$ 650,432	$ 27,425	$ 623,007
Metals	264,493	76,888	187,605
Oil and Gas	809,321	557,317	252,004
Other	112,556	36,165	76,391
	$ 1,836,802	$ 697,795	$ 1,139,007

The carrying value of unproved oil and gas properties in producing cost centres at December 31, 2002 was $15.7 million (2001 – $4.2 million). The carrying value of pre-production cost centres at December 31, 2002 was $4.2 million (2001 – $5.7 million). The amount of general and administrative expenses capitalized in 2002 was $7.6 million (2001 – $11.3 million).

Included in capital assets at December 31, 2002 is $28.9 million related to assets under construction (2001 – $10.5 million). These assets are not subject to amortization. The cost of assets under capital lease totalled $5.0 million (2001 – $6.6 million), less accumulated amortization of $1.2 million (2001 – $2.1 million).

6 Investments

	2 0 0 2	2 0 0 1
Power generation (a)	**$ 70,472**	$ 72,638
Tourism (b)	**21,580**	22,460
Mining (c)	**6,401**	47,234
Other	**1,072**	1,075
	$ 99,525	$ 143,407

(a) The Corporation owns 49.7% of the common shares of Sherritt Power Corporation ("Sherritt Power"), a Corporation that constructs and operates gas-fired power plants in Cuba. This investment is accounted for using the equity method of accounting. At December 31, 2000 the Corporation held $75 million principal amount of 11.5% Senior Unsecured Amortizing Notes ("Notes"), due 2004. The Corporation entered into an agreement with Sherritt Power (the "Cash Flow Assurances Agreement") in 1998 whereby the Corporation agreed to advance funds to Sherritt Power under certain circumstances to enable it to fund its obligations to holders of the Notes, to a maximum of U.S.$12.5 million. These advances bear interest at LIBOR plus 6% and rank pari passu with the Notes, and are repayable no later than March 31, 2005.

On March 21, 2001, Sherritt Power Corporation's Noteholders approved an Extraordinary Resolution to amend the trust indenture governing $225 million of its Notes. The amendment resulted in the following changes to the Notes:

(i) an acceleration of the first amortization of $198 per $1,000 principal amount to March 31, 2001 from March 31, 2002;

(ii) a revision to the remaining amortization schedule such that $200 per $1,000 principal amount is amortized on March 31 in each of 2003, 2004 and 2005 and $101 per $1,000 principal amount is amortized on each of March 31, 2006 and 2007. The original terms specified amortization payments of $401 per $1,000 principal amount on each of March 31, 2003 and 2004;

(iii) an increase in the interest rate from 11.50% to 12.125% effective April 1, 2001; and

(iv) the payment of a consent premium of $15 per $1,000 principal amount of the Notes.

As a result of this amendment, the Corporation received approximately $20.3 million from Sherritt Power on April 2, 2001 representing the payment of the first amortization, the consent premium and accrued interest. The Corporation also advanced Sherritt Power $19.6 million on April 2, 2001 under the Cash Flow Assurances Agreement for the purposes of funding the accelerated amortization. This advance is included in current advances and loans receivable. The consent premium was deferred and is being amortized over the remaining term of the Notes.

Accordingly, the Corporation now holds $60.2 million principal amount of Notes (note 24).

(b) The Corporation has a 25% indirect interest in a hotel complex in Varadero, Cuba, and a 12.5% indirect interest in a hotel complex in Havana, Cuba. Both investments are accounted for as long-term investments using the equity method of accounting.

(c) Mining investments comprise the Corporation's investment in Anaconda Nickel Limited ("Anaconda"), a mining company listed on the Australian Stock Exchange. This investment is accounted for using the cost method of accounting. During 2001, this investment was written down by $23.4 million ($18.8 million after tax) to the Corporation's estimate of its long-term net realizable value based on available information. In the third quarter of 2002, this investment was written down by a further $37.0 million ($29.8 million after tax) to reflect developments in Anaconda's financial restructuring.

7 Other assets

	2002	2001
Advances receivable (a)	**$ 21,245**	$ 30,332
Loans receivable (b)	**38,965**	37,811
Cellular telephone concession (c)	**22,156**	24,333
Goodwill (c)	**15,098**	15,098
Deferred debenture interest (note 12)	**7,500**	9,401
Deferred acquisition costs (d)	**16,161**	–
Long-term spare parts and equipment (e)	**21,820**	22,823
Deferred financing costs (f)	**8,948**	9,345
Pension plans asset (note 8)	**209**	3,074
Other	**9,081**	7,603
	161,183	159,820
Current portion of advances and loans receivable	**38,495**	42,181
	$ 122,688	$ 117,639

(a) Advances receivable comprise a $19.6 million advance to Sherritt Power (note 6(a)) and an advance by a subsidiary of the Corporation to an agency of the Cuban Government to finance construction of facilities for the gathering, storage, treatment and transportation of crude oil from fields in which the Corporation is currently producing oil. Future obligations of the Corporation to this Cuban agency for treatment and transportation costs for production from these fields will be offset against this advance.

(b) A subsidiary of the Corporation has entered into, as lender, an interest-bearing financing agreement and interest bearing revolving credit facilities for a combined total of U.S.$32.0 million with PDS for the construction of a new soybean-based food processing facility in Cuba and to fund working capital requirements. At December 31, 2002, the proportionate amount outstanding under these agreements was approximately $26.2 million (2001 – $24.8 million). The loans are repayable from the cash flows of PDS. Title to the plant remains with the subsidiary of the Corporation until repayment of the loans. Loans receivable also include working capital advances to certain joint venture operations.

(c) The cellular telephone concession of $22.2 million as at December 31, 2002 (2001 – $24.3 million) and goodwill of $15.1 million as at December 31, 2002 (2001 – $15.1 million) are net of amortization of $10.0 million as at December 31, 2002 (2001 – $7.9 million) and $4.9 million as at December 31, 2002 (2001 – $4.9 million), respectively.

(d) Deferred acquisition costs comprise costs associated with a takeover bid of Fording Inc. ("Fording"), which was ongoing at year end (note 24). These costs were reimbursed subsequent to year end as a result of the agreement with Fording that resulted in the creation of the Fording Canadian Coal Trust.

(e) Long-term spare parts and equipment primarily comprises spare parts required to be held in the event of a break-down, but not expected to be utilized in the coming year and an amount held for a potential construction project.

(f) Deferred financing costs comprise costs incurred by Luscar Coal as a result of the issue of U.S.$275 million, 9.75% unsecured senior notes (note 10).

8 Post-retirement benefits

The Corporation and its affiliates sponsor defined benefit and defined contribution pension arrangements covering substantially all employees.

The following table summarizes the significant actuarial assumptions used to calculate the pension expense and obligations under the defined benefit pension plans as at December 31, 2002:

Expected long-term rate of return on plan assets	**3.9 – 7.8%**
Discount rate on pension obligations	**6.2 – 6.8%**
Rate of compensation increases	**0.0 – 4.5%**
Average remaining service period of active employees	**2 – 15 years**

Actuarial reports and updates are prepared by independent actuaries for funding and accounting purposes. Net pension plan expense is:

	2002	2001
Current service cost		
– defined benefit	**$ 1,033**	$ 921
– defined contribution	**6,169**	5,633
Interest cost	**2,397**	1,654
Expected return on plan assets	**(2,487)**	(1,821)
Amortization of net transitional obligation	**305**	305
Increase in valuation allowance at end of year	**111**	466
Provision for loss on plan transfer	**1,771**	–
Amortization of net actuarial loss	**924**	666
Net pension plan expense	**$ 10,223**	$ 7,824

Information on the defined benefit pension plans, in aggregate, is set out below:

	2002	2001
Accrued benefit obligation		
Balance, beginning of year	**$ 34,511**	$ 33,291
Current service costs	**1,033**	921
Interest cost	**2,397**	1,654
Benefits paid	**(992)**	(3,716)
Employee contributions	**65**	62
Actuarial loss	**985**	2,299
Balance, end of year	**$ 37,999**	$ 34,511
Plan assets		
Fair value, beginning of year	**$ 35,205**	$ 34,513
Actual return on plan assets	**(3,450)**	2,010
Employer contributions	**1,198**	2,336
Employee contributions	**65**	62
Benefits paid	**(992)**	(3,716)
Fair value, end of year	**$ 32,026**	$ 35,205
Funded status – surplus (deficiency)	**$ (5,973)**	$ 694
Unamortized net actuarial losses	**6,280**	2,063
Unamortized net transitional obligation	**479**	783
Valuation allowance	**(577)**	(466)
Net pension asset	**$ 209**	$ 3,074

The accrued benefit obligations and fair value of plan assets for pension plans with accrued benefit obligations in excess of plan assets were $30.5 million and $22.8 million, respectively, as at December 31, 2002.

9 Site restoration and abandonment

	2002	2001
Balance, beginning of year	$ 54,826	$ 26,649
Provision	9,717	7,462
Coal business acquisition (note 17)	–	28,411
Paid during the year	(10,696)	(7,696)
Balance end of year	53,847	54,826
Payable within one year	8,696	10,501
	$ 45,151	$ 44,325

The Corporation has estimated future site restoration obligations, which it believes will meet current regulatory requirements, to be approximately $95 million (including amounts already accrued). The Corporation expects to spend $53.3 million within the next five years. Future changes, if any, in regulations and cost estimates may be significant and will be recognized when known.

10 Long-term debt

	2002	2001
Senior Notes (a)	$ 217,195	$ 219,038
Promissory notes (b)		
12.75% promissory note, due May 18, 2003	22,500	22,500
less: sinking fund	(11,465)	(10,607)
	11,035	11,893
9.625% promissory note, due December 30, 2004	44,650	44,650
less: sinking fund	(21,000)	(19,079)
	23,650	25,571
Capital lease obligations (c)	3,382	4,359
	255,262	260,861
Current portion of long-term debt	(12,536)	(1,607)
	$ 242,726	$ 259,254

(a) On October 10, 2001, Luscar Coal Ltd. ("Luscar Coal"), a subsidiary of Luscar Energy, issued at par U.S.$275 million of 9.75% unsecured senior notes ("Senior Notes"), due October 15, 2011. Interest on the Senior Notes is payable semi-annually on April 15 and October 15 in each year, beginning April 15, 2002. Approximately $349 million of the $417 million in net proceeds from the issue was used to repay borrowings and terminate the existing credit facility.

Luscar Energy and its material subsidiaries have guaranteed the principal and interest obligations on the Senior Notes and the bank credit facility. The terms of the Senior Notes include covenants which restrict the ability of Luscar Coal and the guarantors to incur additional indebtedness, issue equity, make investments, declare or pay distributions, incur payment restrictions that other parties may impose, conduct transactions with affiliates, sell assets or use proceeds from permitted asset sales, incur liens, and consolidate or merge with, or into, or transfer all or substantially all of an entity's assets to another person.

(b) The promissory notes were issued to finance the acquisition of a dragline and mine in conjunction with long-term coal supply agreements with a Crown corporation. The 12.75% promissory note is secured by a mortgage on the dragline and the 9.625% promissory note is secured by the assets, rights and agreements related to the mine. Amounts paid to Luscar Ltd. under the terms of the coal supply agreements with the Crown corporation include a component intended to substantially reimburse Luscar Ltd. for the interest and sinking fund payments made in respect of the promissory notes. At maturity, Luscar Ltd. is obligated to repay the promissory notes, net of related sinking funds. The coal supply agreements require the Crown corporation to immediately reimburse Luscar Ltd. for any net repayment required above the sinking fund proceeds.

(c) Obligations under capital leases bear interest at fixed rates ranging from 6.17% to 7.25% and mature between 2003 and 2006.

Long-term debt repayments in each of the next five fiscal years and thereafter are as follows:

	Long-term debt	Capital leases
2003	$ 11,482	$ 1,217
2004	23,203	1,308
2005	–	1,039
2006	–	88
2007	–	–
and thereafter	217,195	–
	251,880	3,652
Interest included therein	–	(270)
	$ 251,880	$ 3,382

Interest on long-term debt was $27.6 million (2001 – $8.0 million).

11 Convertible debentures

As at December 31, 2002, convertible debentures comprise $600 million (2001 – $600 million) of 6% convertible unsecured subordinated debentures issued in November 1996. The debentures have a maturity date of December 15, 2006, and are convertible at the option of the holder into restricted voting shares of the Corporation at a conversion price of $8.775 per restricted voting share. Interest payments on the debentures are made on June 15 and December 15. The convertible debentures are redeemable, provided that the trading price of the Corporation's restricted voting shares reaches certain levels. Subject to regulatory approval, the Corporation may, at its option, satisfy the obligation to pay interest on the convertible debentures or repay the principal amount of the convertible debentures on redemption or at maturity in restricted voting shares. The convertible debentures are included as part of shareholders' equity and are stated net of issue costs less applicable tax relief.

The convertible debentures were distributed on an instalment basis with the final instalment of $338 million received on December 1, 1997. Interest payable to debenture holders was determined on the $675 million outstanding from the date of issue. Deferred debenture interest included in other assets of $7.5 million (2001 – $9.4 million) represents the portion of interest relating to the final instalment of outstanding debentures, which was deferred and is being amortized through retained earnings over the term of the debentures. Accordingly, the effective interest rate of the debentures is 6.32%.

Interest on the convertible debentures is stated net of tax relief of $14.6 million (2001 – $16.0 million).

12 Capital stock

The Corporation's authorized share capital consists of an unlimited number of restricted voting shares plus 100 multiple voting shares.

Ian W. Delaney, the Chairman of the Board, holds all of the multiple voting shares, giving him sufficient votes to elect a majority of the directors to the Board, subject to limitations contained in the articles of incorporation of the Corporation. These limitations include provisions that the multiple voting shares are non-transferable, are not entitled to any dividends or distributions of assets and are automatically converted into restricted voting shares on a share-per-share basis upon the occurrence of certain events.

Holders of the restricted voting shares are entitled to receive dividends and distributions of assets. The Corporation's outstanding restricted voting shares are as follows:

	Number		Stated capital	
	2002	2001	**2002**	2001
Beginning of year	**97,711,764**	72,496,036	**$ 450,716**	$ 349,840
Shares issued:				
Acquisition of Luscar	**–**	25,000,087	**–**	100,000
Exercise of stock options	**–**	40,000	**–**	122
Other stock compensation plans	**50,125**	175,641	**241**	754
End of year	**97,761,889**	97,711,764	**$ 450,957**	$ 450,716

If all of the convertible debentures are converted into shares at the option of the holders, up to 68,376,068 additional restricted voting shares may be issued on or before December 14, 2006.

In June, 2002, the Corporation entered into an agreement with a third party, which provides the Corporation with the right, at any time prior to April 30, 2003, to sell special warrants to the third party for cash by way of private placement, subject to regulatory approval. Each special warrant would be exercisable by the holder to acquire one restricted voting share of the Corporation for no additional consideration. The maximum number of special warrants issuable under the agreement is the lesser of $30 million divided by the purchase price (which will be based on the market price at the time the Corporation exercises its right) and 5% of the aggregate number of restricted voting shares that would be outstanding after giving effect to the exercise of the special warrants. Upon exercise of its right, the Corporation is obliged to, among other things, file a prospectus qualifying the issuance of restricted voting shares upon exercise of the special warrants. The special warrants would be automatically exercised upon receipt of regulatory approval of this prospectus.

The following table presents the calculation of basic and diluted earnings per restricted voting share. In the table, the number of shares is stated in thousands.

	2002	2001
Net earnings	$ 60,449	$ 51,595
Interest on convertible debentures	(23,264)	(21,938)
Net earnings applicable to restricted voting shareholders and after repurchase of convertible debentures	37,185	29,657
Interest on convertible debentures	23,264	21,938
Net earnings applicable to restricted voting shareholders plus assumed conversions	$ 60,449	$ 51,595
Weighted average number of restricted voting shares – basic	97,737	88,412
Weighted average effect of dilutive securities:		
Employee stock options	236	229
Convertible debentures	68,376	68,376
Weighted average number of restricted voting shares for diluted calculation	166,349	157,017
Earnings per restricted voting shares – basic	$ 0.38	$ 0.34
Earnings per restricted voting shares – diluted	0.36	0.33

The calculation of diluted earnings per share assumes that employee stock options were exercised at the beginning of the year or time of issuance, if later. Employee stock options with an exercise price greater than the average market price of the restricted voting shares were not included in the calculation of diluted earnings per share as the effect was anti-dilutive. The average market price of the restricted voting shares during the year was $4.61 (2001 – $4.50).

13 Contributed surplus

Contributed surplus comprises $193 million resulting from a reduction in stated capital in 2000 and $6.7 million resulting from the repurchase of convertible debentures at a discount during 2000. The contributed surplus arising from the reduction in stated capital may be utilized to eliminate or reduce any deficit which may arise as a result of the future payment or distribution of dividends or other distribution from time to time to holders of the restricted voting shares.

14 Stock compensation plans

The Corporation established an Employee and Director Stock Option Plan (the "Option Plan") in 1995 to govern the granting of certain options to purchase restricted voting shares in the Corporation. The current maximum number of options which may be issued under the Option Plan is 6,784,670. Under the Option Plan, the exercise price of each option equals the closing market price of the Corporation's stock on the day prior to the date the option is granted and an option's maximum term is ten years. Options vest on such terms as the Compensation Committee of the Board of Directors determines, generally in three equal instalments on the first, second and third anniversaries of the date the options are granted.

A summary of the status of the Corporation's Option Plan is presented below:

	2002		2001	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at beginning of year	**6,425,000**	**$ 6.64**	6,465,000	$ 6.61
Exercised	**–**	**–**	(40,000)	3.05
Outstanding at end of year	**6,425,000**	**6.64**	6,425,000	6.64

The following table summarizes information on stock options outstanding at December 31, 2002:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 2.70 – $ 4.70	**700,000**	**5.8 years**	**$ 3.04**	**700,000**	**$ 3.04**
4.71 – 6.70	**3,385,000**	**3.0 years**	**6.53**	**3,365,000**	**6.54**
6.71 – 8.30	**2,340,000**	**3.4 years**	**7.86**	**2,340,000**	**7.86**

Under the Employee Share Purchase Plan ("ESPP"), the Corporation is authorized to issue up to 800,000 restricted voting shares to its full-time employees who are eligible to participate after one year of continuous service. Under the terms of the ESPP, employees may elect to have an amount (up to 5% of their previous year's base earnings) withheld by payroll deduction over a two-year period to purchase restricted voting shares of the Corporation. The purchase price of the restricted voting shares is the lower of the share price at the beginning of the two-year period and the share price at the end of the period. The Corporation issued 50,125 restricted voting shares to employees during the year ended December 31, 2002 under the ESPP and has, since its inception in 1996, issued an aggregate of 244,975 restricted voting shares to employees.

On September 21, 2000, the Corporation established a stock-linked compensation plan (the "Plan"). Under the terms of the Plan, participation units may be issued to directors, senior management and other employees. The participation units represent a right to receive a cash amount from the Corporation equivalent to the amount by which the market price of the Corporation's restricted voting shares at time of exercise exceeds the market price of such shares at the time of the grant. The Corporation granted no participation units during the year ended December 31, 2002 (2001 – 160,000 at a price of $5.5559). The participation units vest in three equal instalments on the first, second and third anniversaries of the date the participation units are granted.

15 Net financing income (expense)

	2002	2001
Interest on cash, short-term investments and loans	**$ 6,590**	$ 8,020
Interest income from affiliates	**7,293**	7,602
Interest expense on debt	**(27,610)**	(16,781)
Other income – net	**318**	232
Foreign exchange gains	**4,884**	5,364
	$ (8,525)	$ 4,437

16 Income taxes

The following table reconciles income taxes calculated at a combined Canadian federal/provincial income tax rate with the income tax expense in the consolidated financial statements for the two years ended December 31:

	2002	2001
Earnings before taxes	$ 84,651	$ 56,291
Income tax at the combined basic rate of 38.6% (2001 – 42.1%)	32,675	23,710
Increase (decrease) in taxes resulting from:		
Large Corporation Tax	2,199	1,183
Difference between Canadian and foreign tax rates	(26,323)	(32,552)
Reduction in future income tax rates	(1,500)	(1,858)
Untaxed portion of unrecognized capital losses	7,680	5,247
Future tax assets not recognized	7,214	12,498
Resource allowance	(2,317)	(3,721)
Other items	4,574	189
Income tax expense	$ 24,202	$ 4,696

The income tax expense in 2002 included an additional provision related to prior years resulting from a tax assessment from the Cuban tax authorities relating to the Corporation's Oil and Gas business.

Total income tax expense is included in the consolidated statements of operations and retained earnings as follows:

	2002	2001
Income tax expense	$ 24,202	$ 4,696
Tax benefit on convertible debenture interest	(14,638)	(15,964)
	$ 9,564	$ (11,268)

Future income taxes consisted of the following temporary differences:

	2002	2001
Capital assets	$ (205,992)	$ (222,320)
Deferred debenture interest	(2,896)	(3,960)
Tax loss carryforwards	59,282	46,919
Other	(68)	(10,132)
Future income tax asset (liability)	$ (149,674)	$ (189,493)

At December 31, 2002, the Corporation had income tax losses of approximately $132 million (2001 – $115 million), which may be used to reduce future taxable income. Substantially all of these income tax losses, which expire between 2004 and 2009, are located in Canada. The Corporation also had $4.1 million of capital losses at December 31, 2002 (2001 – $1.4 million). The benefit relating to $18.2 million (2001 – $16.1 million) of tax losses and $46.4 million of capital asset temporary differences was not recognized in the financial statements.

17 Acquisition of business

On May 11, 2001, Sherritt Coal Partnership (the "Partnership"), a partnership between the Corporation and a subsidiary of Ontario Teachers' Pension Plan Board ("OTPP"), acquired a majority of the outstanding Trust Units ("Units") and Convertible Debentures ("Debentures") of Luscar Coal Income Fund (the "Fund"). By June 29, 2001, the Partnership had acquired the remaining Units and Debentures of the Fund. The Fund is an open-ended trust, which has invested in the securities of Luscar Coal and Luscar Ltd., a Canadian coal producer. On September 14, 2001, the Partnership changed its name to Luscar Energy. On October 5, 2001, the Corporation transferred its interest in Luscar Energy to a wholly-owned subsidiary.

Under the terms of the purchase, unitholders of the Fund chose to receive either cash of $4.00 per Unit or one restricted voting share of the Corporation for each Unit, provided that the aggregate number of the Corporation's shares issued was limited to 25 million shares. The Fund's Debentures were acquired for $1,050 cash per $1,000 principal amount of debentures plus accrued

interest. The Corporation's share of the total acquisition cost was $236 million, comprising cash consideration of $136 million and the issue of 25 million restricted voting shares at a value of $4.00 per share.

The acquisition was accounted for by the Partnership using the purchase method of accounting. The Partnership's financial statements for the year ended December 31, 2001 include the combined financial statements of the Fund from May 12 to December 31, 2001. The Corporation proportionately consolidates its 50% interest in the results of the Partnership.

18 Financial instruments

The estimated fair value of the Anaconda investment was approximately $4.6 million (2001 – $20.3 million). The estimated fair value of the Sherritt Power common shares and Notes was $82.1 million (2001 – $69.5 million). Fair values of investments are determined based on market quotes at year end or the last trade closest to year end. The estimated fair value of loans and advances receivable was $60.2 million (2001 – $65.7 million). The estimated fair value of long-term debt was approximately $287 million (2001 – $266 million). Fair values of loans and advances are estimated based on discounted cash flows. The fair values of other financial instruments approximate carrying value. Due to the use of subjective judgment and uncertainties in the determination of estimated fair values, these values should not be interpreted as being realizable in an immediate settlement of the respective financial instruments.

During 2002, the Corporation's short-term investments had a weighted-average interest rate of 2.5% (2001 – 4.4%).

Under the terms of a Luscar Coal $100 million working capital facility, the lenders currently have the right to convert the facility to a demand facility until Luscar Energy's fixed charge coverage ratio, calculated on a rolling 12-month basis, exceeds 2.5:1. This facility is currently only used to support letters of credit.

Unutilized lines of credit at December 31, 2002 were $60.9 million. At the end of 2002, the Corporation had outstanding letters of credit of approximately $52.7 million.

Short-term debt comprises unsecured obligations and other obligations secured by receivables and inventory of certain joint venture operations and a charge on a dragline. These obligations bear interest at floating rates. During 2002, the effective interest rate on short-term indebtedness was 6.6% (2001 – 7.1%).

The Coal business is also obligated under an interest rate swap agreement, which fixes the interest rate of a notional amount of $50 million of floating rate debt at 5.72% plus the applicable interest rate margin. This swap expires in December 2003 and was originally established to hedge Luscar Coal's exposure to its floating interest rate debt, which was repaid in October 2001. The Corporation's share of the unrealized loss on this contract at the date of acquisition of $3.5 million was recognized as part of the purchase equation and was being amortized over the remaining term of the respective contract.

Upon the repayment in October 2001 of the long-term bank debt for which the interest rate swap was associated, the interest rate swap was restated to its fair value at that date with the change in fair value from the date of acquisition applied against interest expense. Subsequent changes in the fair value and net settlements under the interest rate swap are recorded as other interest expense.

The Corporation's share of the fair market value of the interest rate swap was $1.5 million at December 31, 2002.

The fair value of the derivative contracts is estimated as the amount the Corporation would need to pay to terminate the contracts at that date.

The Corporation has equity investments, current assets, loans and advances located in Cuba of approximately $355 million (2001 – approximately $357 million). The Cuban Government's future policies relating to foreign investors and foreign exchange payments could be affected by the political environment and economic pressure resulting from the Cuban Government's limited access to foreign exchange.

Accounts receivable included approximately $39.0 million (2001 – approximately $42.9 million) of unbilled revenue primarily related to cost recovery oil production in Cuba. Under the terms of the production sharing contracts, cost recovery oil production becomes billable after certification of accumulated development and operating costs.

Sherritt's principal businesses include the sale of several commodities. Revenues, earnings and cash flows from the sale of nickel, cobalt, oil and the sale of coal on the international export market are sensitive to changes in market prices, over which the Corporation has little or no control. The Corporation has the ability to address its price-related exposures through the limited

use of options, futures and forward contracts, however generally does not enter into such arrangements. Sherritt reduces the business cycle risks inherent in its commodity operations through industry diversification.

Many of Sherritt's businesses transact in currencies other than Canadian dollars. The Corporation is also sensitive to foreign exchange exposures when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency.

19 Related party transactions

Subsidiaries of the Corporation provide goods, labour, advisory and other administrative services to affiliates at cost, commercial rates, and other various contractual terms. The Corporation and its subsidiaries also market all of the cobalt, a portion of the nickel, and certain by-products produced by the Metals Enterprise, pursuant to sales agreements.

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to affiliates in 2002 amounted to $114.0 million (2001 – $96.4 million). The total value of goods and services purchased from affiliates in 2002 was $14.0 million (2001 – $14.0 million).

Accounts receivable from affiliates at December 31, 2002, totalled $4.7 million (2001 – $6.3 million). Accounts payable to affiliates at December 31, 2002 totalled $0.9 million (December 31, 2001 – $1.7 million).

20 Commitments and contingencies

The Corporation is committed to annual payments under operating leases as follows: 2003 – $2.0 million; 2004 – $0.5 million; 2005 – $0.5 million; 2006 – $0.4 million; and thereafter – $0.2 million.

On April 2, 2001, the Corporation advanced $19.6 million to Sherritt Power pursuant to the Cash Flow Assurances Agreement dated March 1998. The Corporation also committed under this agreement to reimburse Sherritt Power for amounts deducted from distributions by the project on account of Cuban income taxes up to an aggregate maximum of U.S.$5.0 million, in exchange for an assignment to the Corporation of Sherritt Power's rights to investment credits arising on payment of this tax. If required, the Corporation will also provide bridge financing to Sherritt Power on commercial terms.

The Corporation had other outstanding commitments aggregating $0.7 million at December 31, 2002 (2001 – $5.3 million) which comprise power purchase commitments.

The Metals Enterprise intends to continue investing in capital projects over the next two years to ensure that the Moa, Cuba operations meet applicable national and international environmental standards. It is anticipated that the Metals Enterprise will generate sufficient funds from internal sources to finance these expenditures.

The agreements establishing the Metals Enterprise require the unanimous consent of its shareholders to pay dividends. It is not expected that this restriction will have a material impact on the ability of the Corporation to meet its obligations.

A number of the Corporation's subsidiaries and affiliates have operations located in Cuba. The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The Corporation does not, directly or indirectly, hold any assets in the United States. The Corporation has received letters from U.S. citizens claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. Having regard to legal and other developments in the United States, and remedies available in Canada and in Europe, the Corporation believes that the impact of any claims against it will not be material.

In October 2001, the Corporation received a statement of claim setting out a claim against it and Dynatec Corporation, brought in the Supreme Court of Victoria, Australia, by Fluor Australia Pty Ltd ("Fluor"). The claim related to alleged deficiencies in the facilities of Anaconda's Murrin Murrin mine development in Australia. The alleged deficiencies are also the subject of an ongoing arbitration commenced by Anaconda against Fluor, which was retained by Anaconda to provide engineering, procurement and construction services. Anaconda alleges that Fluor breached the services contract between them. Phase 1 of the arbitration proceedings has been completed and an award was handed down in September 2002. The Corporation understands that Phase 2 of the arbitration will commence later this year. On December 20, 2002 Fluor formally discontinued its proceeding against the Corporation and Dynatec, but reserved its rights to recommence proceedings against them at a later date. The Corporation believes Fluor's claims against it are without merit and will vigorously defend any further claim Fluor may bring.

21 Segmented information

Business segments

The Corporation's reportable operating segments are business units that offer distinct products and services. The Coal segment comprises the sale of coal primarily for use as fuel to generate electricity and for use in steel making. These activities are performed through the Corporation's 50% indirect interest in Luscar Energy. The Metals segment comprises mainly the mining, processing and marketing of commodity nickel and cobalt and includes the production and sale of agricultural fertilizers from its facilities in Alberta, Canada. These activities are performed primarily through the Corporation's 50% indirect interest in the Metals Enterprise. The Oil and Gas segment includes exploration and development of oil and gas outside Canada. The Other Businesses segment includes investments in power-generation, communications, tourism, soybean-based food processing, agriculture and other activities in Cuba. The Corporate segment comprises management of cash and short-term investments, general corporate activities and the investment in other mining companies, including Anaconda. All sales generated by the Corporation's oil and gas, power-generation and soybean operations in Cuba are made to agencies of the Government of Cuba.

2002	**Coal**	**Metals**	**Oil and Gas**	**Other**	**Corporate**	**Consolidated**
Revenue from external customers	**$ 298,557**	**$ 252,925**	**$ 218,766**	**$ 36,150**	**$ –**	**$ 806,398**
Intersegment revenues	**–**	**–**	**–**	**1,134**	**–**	**1,134**
Depletion and amortization	**43,190**	**17,128**	**73,331**	**7,341**	**3,533**	**144,523**
Provision for site restoration and abandonment	**7,276**	**1,036**	**1,405**	**–**	**–**	**9,717**
Operating earnings (loss)	**18,494**	**39,138**	**98,859**	**540**	**(23,769)**	**133,262**
Write-down of investment	**–**	**–**	**–**	**–**	**(37,000)**	**(37,000)**
Amortization of goodwill	**–**	**–**	**–**	**–**	**–**	**–**
Share of loss of equity investments	**–**	**–**	**–**	**(2,016)**	**–**	**(2,016)**
Financing income (expense)	**(24,346)**	**2,495**	**718**	**4,644**	**7,964**	**(8,525)**
Minority interest	**–**	**–**	**–**	**(1,070)**	**–**	**(1,070)**
Earnings (loss) before taxes	**(5,852)**	**41,633**	**99,577**	**2,098**	**(52,805)**	**84,651**
Capital expenditures	**25,518**	**13,718**	**90,912**	**1,282**	**617**	**132,047**
Assets	**748,188**	**349,334**	**556,741**	**208,753**	**162,472**	**2,025,488**

2001	Coal (1)	Metals	Oil and Gas	Other	Corporate	Consolidated
Revenue from external customers	$ 204,450	$ 230,253	$ 176,689	$ 25,226	$ –	$ 636,618
Intersegment revenues	–	–	–	1,118	–	1,118
Depletion and amortization	27,425	18,524	62,016	6,864	3,939	118,768
Provision for site restoration and abandonment	4,850	982	1,630	–	–	7,462
Operating earnings (loss)	20,153	3,731	73,987	420	(19,836)	78,455
Write-down of investment	–	–	–	–	(23,441)	(23,441)
Amortization of goodwill	–	–	–	(1,357)	–	(1,357)
Share of loss of equity investments	–	–	–	(679)	–	(679)
Financing income (expense)	(19,941)	1,052	10,264	(5,549)	18,611	4,437
Minority interest	–	–	–	(1,124)	–	(1,124)
Earnings (loss) before taxes	212	4,783	84,251	(8,289)	(24,666)	56,291
Capital expenditures	8,303	19,772	78,984	5,024	1,484	113,567
Assets	769,288	332,453	471,895	211,733	213,045	1,998,414

(1) Includes results from May 12, 2001 to December 31, 2001

Geographic segments

2002	Revenues (1)	Capital assets and goodwill
Canada	$ 247,449	$ 728,182
Cuba	248,111	397,560
Europe	167,792	6,925
Asia	97,425	6,743
Other foreign countries	45,621	–
	$ 806,398	$ 1,139,410

2001	Revenues (1)	Capital assets and goodwill
Canada	$ 187,212	$ 753,767
Cuba	192,968	384,539
Europe	146,139	9,270
Asia	89,187	6,526
Other foreign countries	21,112	3
	$ 636,618	$ 1,154,105

(1) Revenues are attributed to geographical locations based on location of customer.

22 Goodwill transitional disclosure

The earnings and earnings per share impact of adopting the new CICA recommendations on goodwill and intangible assets are as follows:

	2002	2001
Adjusted net earnings		
Net earnings, as reported	$ 60,449	$ 51,595
Add back: goodwill amortization	–	1,357
	$ 60,449	$ 52,952
Adjusted basic earnings per restricted voting share		
Reported net earnings	$ 0.38	$ 0.34
Goodwill amortization	–	0.01
	$ 0.38	$ 0.35
Adjusted diluted earnings per restricted voting share		
Reported net earnings	$ 0.36	$ 0.33
Goodwill amortization	–	0.01
	$ 0.36	$ 0.34

23 Comparative amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

24 Subsequent events

In October 2002, Sherritt Coal Partnership II ("SCPII"), a partnership owned equally by subsidiaries of Sherritt and OTPP, initiated a cash takeover bid to purchase all of the outstanding shares of Fording Inc. ("Fording"). Fording responded to the initial offer by announcing its intention to convert into an income trust under a plan of arrangement. Shortly thereafter, Teck Cominco Limited ("Teck") and Westshore Terminals Income Fund ("Westshore") reached an agreement with Fording to participate in its income trust. Subsequently, SCPII revised its offer to create a trust structure comprising Fording's metallurgical coal and industrial mineral assets and certain metallurgical coal assets and port facilities jointly owned by Luscar Energy and CONSOL Energy Inc. ("CONSOL") and offer Fording shareholders a combination of cash and units in this newly created trust.

On January 13, 2003, an agreement was reached between SCPII, Fording, Teck and Westshore to combine certain metallurgical coal assets and port facilities jointly owned indirectly by Luscar Energy and CONSOL with the metallurgical coal assets of Fording and Teck. Under the agreement, the metallurgical assets and port facilities were to be transferred to the Fording Coal Partnership, initially 65% owned by a newly created Fording Canadian Coal Trust ("Fording Trust"). Fording shareholders were offered a combination of cash and units in the Fording Trust. Fording shareholders approved the plan of arrangement to convert Fording into the Fording Trust on February 19, 2003 and various transactions transferring assets and initiating the Fording Trust were scheduled to close on February 28, 2003.

Sherritt agreed to invest $100 million into the Fording Trust in exchange for approximately 2.9 million Fording Trust units. In addition, Luscar Energy agreed to distribute approximately $23 million (partially in the form of certain metallurgical coal assets to be subsequently exchanged by SCPII for approximately 0.2 million Fording Trust units) to Sherritt and OTPP. Luscar Energy also agreed to transfer the remaining portion of its metallurgical coal assets to Fording Trust in exchange for approximately 3.0 million additional units of the Fording Trust. As part of the overall agreement that created the Fording Trust, SCPII agreed to withdraw its competing offer to Fording shareholders and acquire Fording's prairie operations for cash consideration of $225 million. The Corporation expects to receive a payment in respect of working capital related to the metallurgical coal assets transferred to Fording, net of working capital acquired and certain capital expenditures related to the Fording prairie operations. The prairie operations primarily comprise the mining of thermal coal for a mine-mouth power plant at Genesee, Alberta, contract mining operations at TransAlta Corporation's Highvale and Whitewood mines in Alberta and various coal and mineral interests in Alberta, Saskatchewan and Manitoba, which provide royalty income.

In January 2003, Sherritt made a proposal to Sherritt Power that would result in owners of Sherritt Power's equity and Notes exchanging their interests for equity and unsecured notes of Sherritt. The proposal, which is being recommended by an independent committee of Sherritt Power's directors, is subject to approval from the shareholders and Noteholders on March 25, 2003.

Five-Year Financial and Operating Summary (1)

(financial numbers in thousands of Canadian dollars except per share amounts)	**2002**	2001	2000	1999	1998
Statements of Operations					
Revenue	**$ 806,398**	$ 636,618	$ 480,355	$ 372,346	$ 312,875
Operating earnings (loss)					
Coal (2)	**18,494**	20,153	–	–	–
Metals	**39,138**	3,731	61,851	45,966	19,608
Oil and Gas (3)	**98,859**	73,987	79,571	39,143	(73,435)
Other Businesses	**540**	420	3,832	3,852	4,176
Corporate	**(23,769)**	(19,836)	(24,950)	(21,876)	(20,354)
	133,262	78,455	120,304	67,085	(70,005)
Income (loss) from equity investments	**(2,016)**	(679)	788	(1,275)	(1,716)
Net earnings (loss) (4)	**60,449**	51,595	115,570	66,601	(45,995)
Earnings (loss) per restricted voting shares					
Basic	**0.38**	0.34	1.38	0.60	(0.98)
Diluted	**0.36**	0.33	0.84	0.45	–
Balance Sheets					
Cash and short-term investments	**192,958**	124,078	240,853	374,143	493,897
Restricted cash	**17,627**	23,829	20,490	11,875	16,494
Non-cash working capital	**256,093**	289,462	185,001	120,592	82,988
Capital assets	**1,124,312**	1,139,007	507,406	460,455	420,775
Investments and other assets	**260,708**	289,251	284,647	273,781	192,622
Debt	**(287,363)**	(296,888)	(8,000)	(9,283)	(7,043)
Site restoration and abandonment	**(53,847)**	(54,826)	(26,649)	(31,519)	(27,338)
Future taxes	**(149,674)**	(189,493)	7,226	5,160	(9,789)
Other	**(6,530)**	(7,562)	(2,865)	(2,377)	(3,156)
Shareholders' equity	**1,354,284**	1,316,858	1,208,109	1,202,827	1,159,450
Statements of Cash Flow					
Cash provided by operating activities	**233,517**	152,537	129,169	89,979	113,779
Capital expenditures	**132,047**	113,567	116,343	87,818	156,609
Investments	**3,148**	11,255	(7,836)	(62,480)	(151,191)
Convertible debenture interest payments	**36,000**	36,000	37,500	40,500	40,500
Increase (decrease) in net cash	**68,880**	(116,775)	(133,290)	(119,754)	(106,609)
Sales Volumes					
Coal (thousands of tonnes) (2)	**17,982**	11,509	–	–	–
Nickel (thousands of pounds)	**33,836**	33,125	29,480	31,623	29,752
Cobalt (thousands of pounds)	**3,418**	3,295	3,075	3,387	2,830
Fertilizers (thousands of tonnes)	**235**	205	330	307	325
Oil (barrels per day)	**22,271**	21,463	18,226	14,983	11,102
Average Realized Prices					
Coal ($ per tonne)	**$ 16.60**	$ 17.76	$ –	$ –	$ –
Nickel ($ per pound)	**4.82**	4.00	5.80	3.94	3.06
Cobalt ($ per pound)	**11.02**	15.17	19.65	19.42	28.00
Oil ($ per barrel)	**26.84**	21.69	24.18	19.47	13.31
Restricted Voting Share Prices					
High	**5.85**	5.89	5.40	4.00	6.50
Low	**4.01**	3.51	2.90	2.30	2.70
Shares Outstanding at December 31 (thousands)	**97,762**	97,712	72,496	72,269	72,139

(1) Certain prior year figures have been reclassified to conform to the current year's presentation.

(2) The Coal segment includes the Corporation's 50% share of the results of Luscar Energy Partnership from May 12 to December 31, 2001.

(3) Operating earnings (loss) includes write-downs of Oil and Gas assets of $6.8 million in 2001 and $72.3 million in 1998.

(4) Net earnings (loss) includes write-downs of investments of $29.8 million in 2002 and $18.8 million in 2001.

Corporate Information

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Chairman, Sherritt International Corporation
Toronto, Canada

Dennis G. Maschmeyer
President and Chief Executive Officer
Sherritt International Corporation
Bruderheim, Canada

Daniel P. Owen * † • ■ ▲
Chairman, Molin Holdings Ltd.
Toronto, Canada

Rupert Pennant-Rea * † • ■
Chairman, The Stationery Office Group Ltd.
London, England

Sir Patrick Sheehy * † ■ ▲
Chairman, Perpetual Income & Growth Investment Trust plc.
London, England

- * Audit Committee
- † Compensation Committee
- • Environment, Health and Safety Committee
- ■ Nominating Committee
- ▲ Reserve Committee

SENIOR OFFICERS

Ian W. Delaney
Chairman

Dennis G. Maschmeyer
President and Chief Executive Officer

Patrice Merrin Best
Executive Vice President and Chief Operating Officer

Michael E. Chalkley
Senior Vice President, Metals

Barry Hatt
Senior Vice President, Oil and Gas

Samuel W. Ingram
Senior Vice President, General Counsel and Corporate Secretary

Jowdat Waheed
Senior Vice President, Finance and Chief Financial Officer

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Calgary, Alberta
Canada T2R 1L9
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Sherritt Power
1133 Yonge Street
Toronto, Ontario
Canada M4T 2Y7
Telephone (416) 924 4551
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Annual Meeting
The annual meeting of shareholders of Sherritt International Corporation will be held in Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario on Thursday, May 22, 2003 at 10:00 a.m.

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